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Full contents
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Past issues/regional covers
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NEWS ANALYSIS

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIED ADS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

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The future of mind control
People already worry about genetics. They should worry about brain science too ... More on this week's lead article

Previous print editions

May 18th 2002
May 11th 2002
May 4th 2002
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Apr 20th 2002

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The world this week

Politics this week
Business this week

Leaders

Neuroscience
The future of mind control

Media giants
What is the point?

India and Pakistan
Will there be war?

Colombia's presidential election
Saving Colombia from itself

Merrill Lynch
Thunderstruck

Letters

On the European Commission and Fish, Japan's Financial Services Agency, frequent-flyer miles

Special Report

India and Pakistan
A deadly game

Kashmiri aspirations
India's kind of separatist

Nuclear rivals
The risks they run

United States

George Bush and September 11th
A systemic failure

Cuba policy
Why mess with 40 years of success?

State-sponsored terrorism
The seven deadly sinners

Welfare reform
A howl from the states

Oddball politicians
The Ed who hopes to do a Jesse

Video games in politics
Ventura adventure

Elvis Presley
The other jubilee

Lexington
Reaching out to Vladimir

The Americas

Colombia's presidential election
Staying alive

Transport in Mexico
Ending in tiers

Argentina's collapse
Praying for a result

Asia

Japan
Koizumi's shrivelling agenda

Vietnam
A trickle of democracy

Afghanistan
Hunting the mullah

China's civil service

Business

Pricing strategies
The price is wrong

Prices in the euro area
Hold the foie gras

German energy mergers
Swap shop

Computer Associates
The Wang clan cornered

Data storage
Going soft

American steel
Helter smelters

Low-cost airlines in Asia
Taking off, sort of

Japan's trading houses
Middlemen in a muddle

Face value
Onwards and upwards

Special Report

Media conglomerates
Tangled webs

Finance & Economics

Nasdaq and its rivals
Uncertain future

Wall Street
Merrill settles

German stockmarkets
After greed, fear

Financing Eastern Europe
Who's fairest?

Australian insurance
The Enron down under

Asbestos
Outlandish claims

Credit derivatives
What's in a name?

Economics focus
The white heat of technology

Science & Technology

The ethics of brain science
Open your mind

Books & Arts

Global politics
Partners, not strangers

London theatre
Pearly gates

New fiction
Wet dreams

Studies of feminism
Nice girls

Advertisement

The strategy behind a pay rise

Middle East & Africa

Angola's wondrous peace
The war is over, the rebels come home

Lesotho's election
How to avoid Big Brother's help

Iran and its neighbours
Ever more perilous isolation

Iraqi Kurdistan
Thinking federal thoughts

Europe

Europe and the United States
Chilly in the west, warmer in the east

Taboos in Germany
They're being broken

Gender in France
The mystery of language and ideology

The Irish general election
Return of the teflon taoiseach

Spanish labour law
A general strike looms

Cyprus
Breakthrough?

Turkey
Ailing premier, rocky government

Charlemagne
Romano Prodi, a desperate integrationist

Britain

The economy
Why Britain isn't saving

War on terror
Marines in a spin

Asylum
And stay out

Transport
What's wrong with roads?

Railtrack
Make me an offer

Benefits fraud
Jihad on the dole

Bagehot
The Tories' temptation

India and Pakistan
Old foes, still foes

Obituary

Stephen Jay Gould

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

New Zealand

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Ten-year government-bond yields

Emerging-Market Indicators

Overview

Consumer confidence

Economy

Financial markets

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Business Opportunity - WSI Internet Start Your Own Busines....

Tenders

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Business Opportunity - WSI Internet Start Your Own Business! Profit....

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Tenders

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Hashemite Kingdom of Jordan Ministry of Finance for Supply and Implementation ....

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Politics this week

May 23rd 2002
From The Economist print edition

Time for a fight

AP

The **Indian** prime minister, Atal Behari Vajpayee, made warlike noises towards Pakistan. He told troops in Indian-administered Kashmir that “it's now time for a decisive fight.” India threatened retaliation after rebels thought to be from Pakistan attacked an Indian army camp in Kashmir last week, killing more than 30 people, many of them soldiers' wives and children.

See article: India and Pakistan on the brink of war

Razali Ismail, the United Nations' special envoy to **Myanmar**, said he planned to return to the country soon to seek freedom for more political prisoners. Mr Razali, a Malaysian, is credited with persuading the military government to release Aung San Suu Kyi, Myanmar's opposition leader, from house arrest.

Moves to lift a ban on commercial **whaling** were defeated at the International Whaling Commission, meeting in Japan.

Attacks imminent

It was a week of warnings for America. The head of the FBI and Dick Cheney, America's vice-president, both described **attacks on American targets** as “inevitable”. Meanwhile, Democrats talked about a congressional commission to investigate intelligence failings prior to September 11th.

See article: The fuss about what George Bush knew

President George Bush maintained he would not end the **Cuban trade embargo** unless Fidel Castro released political prisoners, held democratic elections and met a number of other conditions. He would allow post and more humanitarian aid into the island. Cuba protested about being kept “arbitrarily” on America's list of sponsors of terrorism, alongside Iraq, Iran, Syria, Libya, Sudan and North Korea.

See article: George Bush reinforces the Cuban embargo

The body of **Chandra Levy**, the missing Washington intern, was found in a park in the city. Her disappearance last year ended the career of Congressman Gary Condit.

The Justice Department authorised legal action alleging **violations of voting rights** in the 2000 presidential election. The lawsuits will be filed within two months against counties in Florida and cities in Tennessee and Missouri.

Thirty-eight years after an infamous **church bombing** in Birmingham, Alabama, killed four black girls, Bobby Frank Cherry, a former Ku Klux Klansman, was finally found guilty of their murder.

A report by the Institute of Medicine found that 18,000 **uninsured American adults** die each year because they cannot get the treatment they need. Currently one in seven Americans of working age is not provided with health insurance by their employer and does not qualify for government medical care.

Bush heads east

George Bush visited Germany en route to Russia, where he was due to hold wide-ranging discussions with President Vladimir Putin, and sign a treaty to reduce the number of nuclear weapons held by both their countries. Mr Bush was to go home after a visit to France and a NATO summit meeting in Rome.

See article: Why Russia matters more than Europe to America

Romano Prodi, president of the European Commission, unveiled proposals to speed up European integration by, among other things, harmonising direct taxes and creating a European police force and even a single foreign policy. Europe's big countries seemed sure to reject the ideas.

See article: Romano Prodi, Europe's grand integrationist

Germany's conservative challenger for the chancellorship, Edmund Stoiber, caused a stir by hinting that the Czech Republic should not be allowed to join the European Union unless it rescinded the decrees under which several million ethnic Germans were expelled from Czechoslovakia after the second world war.

See article: Taboos against nationalism being broken in Germany

Ireland's incumbent prime minister, Bertie Ahern, and his conservative Fianna Fail party, won a crushing victory in a general election, almost winning an outright majority of seats in parliament. Sinn Fein, the political arm of the IRA, tripled their vote to 6.5% and won five seats.

See article: Ireland's ruling rightish party wins again

AP

Uribe set fair

As campaigning finished for **Colombia's** presidential election on Sunday May 26th, final opinion polls gave almost 50% support to Alvaro Uribe, an independent Liberal who has campaigned on law and order.

See article: Colombia's presidential election

A section of **Argentina's** trade unions staged a strike in protest at the austerity measures demanded by the IMF as a condition of any future loan. The IMF agreed to roll over for a year a repayment owed by Argentina.

See article: Argentina's economic paralysis

Hunger in Africa

Southern Africa's food crisis grew worse. Donors delivered emergency rations to 2.6m people in Malawi, Zambia and Zimbabwe, and estimated that 20m could need help by the end of the year.

Uganda said Sudan had allowed it another 45 days to wipe out the **Lord's Resistance Army**, a murderous Ugandan cult whose soldiers, many of them children, have taken refuge in southern Sudan. Uganda's army has followed them far into Sudan, causing tensions with the country's government.

Rwandan-backed rebels who control Kisangani, a city in **Congo**, arrested and executed people suspected of involvement in a mutiny last week. Church sources said at least 50 people were killed and 50 were missing.

Ariel Sharon briefly faced a coalition crisis, when ultra-religious members of **Israel's** government voted

against an emergency-finance bill. He sacked the dissenting ministers and the bill was passed two days later. Mr Sharon was expected to bring in secular factions to replace the religious parties.

Twelve of the 13 **Palestinian militants** deported to Europe after sheltering for five weeks in the Church of the Nativity in Bethlehem were flown from Cyprus to new homes in Italy, Spain, Greece, Ireland, Portugal and Belgium.

Reuters

Suicide bombers killed three Israelis in Netanya and two in Rishon Letzion, both towns that had been attacked before. The Israeli army continued its near-daily incursions into Palestinian towns and villages; it also assassinated Mahmoud Titi, a leader of a military offshoot of Yasser Arafat's Fatah movement.

Ali Akbar Hashemi Rafsanjani, a former Iranian president, denied allegations that he set up secret meetings between Iranian and American officials. Parliament started investigating the issue.

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Business this week

May 23rd 2002
From The Economist print edition

Merrill Lynch settles

Merrill Lynch settled with New York state's attorney-general, Eliot Spitzer, rather than defend charges that the bank's research analysts had privately disparaged shares that they praised in public so as to win lucrative investment-banking business. Merrill is to pay a fine of $100m and alter the way it pays analysts, but will not admit liability. Other Wall Street banks under investigation are adopting similar changes.

See article: Merrill settles

Citigroup, America's financial-services giant, is to pay $5.8 billion for Golden State Bancorp, a Californian savings and loan. Adding a west coast retail operation to its operation in New York suggests that Citigroup may have an eye on consolidating the country's fragmented market.

Ernst & Young is the latest target for America's Securities and Exchange Commission. The SEC charged the accountants with entering into a joint venture with PeopleSoft while auditing the software firm, contravening rules on auditor independence.

On a brighter note for auditors, a Russian court dismissed a lawsuit brought against **PricewaterhouseCoopers** by small shareholders in Gazprom, the country's giant gas company. The suit had alleged that PwC had produced “false and misleading” audits. Gazprom promptly reappointed the accountants to scrutinise its books.

Bad air day

British Airways reported a full-year pre-tax loss of £200m ($286m), its first loss since privatisation in 1987. Investors had expected worse; but cost-cutting and cash from the sale of Go, a no-frills airline that BA founded, softened the blow. The airline blamed some of the usual culprits (the world economy, September 11th and American subsidies to airlines), plus a new one: falling tourism because of Britain's foot-and-mouth disease last year.

Punch Taverns, one of Britain's biggest pub chains, called last orders on an initial public offering, but then quietly let investors slip through the back door. After pulling its IPO fearing a less than spectacular debut, it returned to the market with a smaller, cut-price offer that should raise around £174m ($254m).

Luc Vandevelde made good on his promise to turn around the fortunes of **Marks and Spencer**, a British retailer that has struggled to maintain its profitability. M&S's chief executive announced profits for the year of £153m ($219m), after a loss of £5.5m the previous year. But he cautioned against overoptimism, arguing that Britain's consumer-spending spree would not last.

Germany calling

Deutsche Telekom suffered a loss of *euro*1.8 billion ($1.7 billion) in the first quarter, compared with a loss of *euro*358m a year ago. Europe's largest telecoms company blamed falling profits at its core fixed-line business because of a weak German economy and write-offs reflecting the falling value of VoiceStream, its American mobile-phone unit, and other value-shredding acquisitions.

WorldCom, feeling the pinch more than most telecoms companies, secured fresh financing worth some

$1.5 billion; reports circulated that $5 billion extra credit might yet be on the cards. The company's cash crisis was hastened by gloomy forecasts for the coming year and by the loss of its investment-grade credit rating.

Nissan said that profits had risen by 12% in the 12 months to March, hitting ¥372 billion ($2.98 billion). The Japanese car maker, 44%-owned by France's Renault, added that savage cost-cutting was likely to give way to a drive to increase sales, in pursuit of still greater profits.

Trading insults

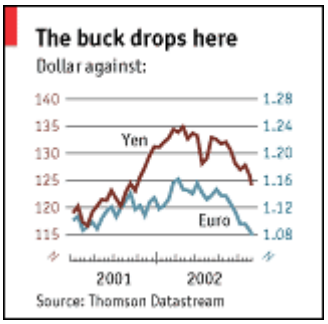
The heads of the IMF, World Bank and WTO issued a robust condemnation of rising **protectionism** by America, fearing that recently introduced steel tariffs and rising farm subsidies could set off a cycle of protectionist countermeasures. A couple of days later, George Bush, hitherto unjustly presumed to lack a sense of irony, proclaimed “World Trade Week 2002”.

China responded to America's imposition of tariffs on steel by slapping on tariffs of its own, at rates of between 7% and 26%. Japan, South Korea, Brazil and New Zealand also joined the European Union in attacking America's steel tariffs at the World Trade Organisation.

Birmingham Steel succumbed to an offer of $615m from **Nucor**, America's second-biggest steel maker, subject to agreement with its debtors and a spell in Chapter 11 bankruptcy.

See article: American steel

The **dollar** fell to an eight-month low against the **euro** and a six-month low against the **yen**. The Bank of Japan intervened to slow the rise of the yen, fearful for Japan's economic recovery.



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Neuroscience

The future of mind control

May 23rd 2002
From The Economist print edition

People already worry about genetics. They should worry about brain science too

IN AN attempt to treat depression, neuroscientists once carried out a simple experiment. Using electrodes, they stimulated the brains of women in ways that caused pleasurable feelings. The subjects came to no harm—indeed their symptoms appeared to evaporate, at least temporarily—but they quickly fell in love with their experimenters.

Such a procedure (and there have been worse in the history of neuroscience) poses far more of a threat to human dignity and autonomy than does cloning. Cloning is the subject of fierce debate, with proposals for wholesale bans. Yet when it comes to neuroscience, no government or treaty stops anything. For decades, admittedly, no neuroscientist has been known to repeat the love experiment. A scientist who used a similar technique to create remote-controlled rats seemed not even to have entertained the possibility. “Humans? Who said anything about humans?” he said, in genuine shock, when questioned. “We work on rats.”

Ignoring a possibility does not, however, make it go away. If asked to guess which group of scientists is most likely to be responsible, one day, for overturning the essential nature of humanity, most people might suggest geneticists. In fact neurotechnology poses a greater threat—and also a more immediate one. Moreover, it is a challenge that is largely ignored by regulators and the public, who seem unduly obsessed by gruesome fantasies of genetic dystopias.

A person's genetic make-up certainly has something important to do with his subsequent behaviour. But genes exert their effects through the brain. If you want to predict and control a person's behaviour, the brain is the place to start. Over the course of the next decade, scientists may be able to predict, by examining a scan of a person's brain, not only whether he will tend to mental sickness or health, but also whether he will tend to depression or violence. Neural implants may within a few years be able to increase intelligence or to speed up reflexes. Drug companies are hunting for molecules to assuage brain-related ills, from paralysis to shyness (see article).

A public debate over the ethical limits to such neuroscience is long overdue. It may be hard to shift public attention away from genetics, which has so clearly shown its sinister side in the past. The spectre of eugenics, which reached its culmination in Nazi Germany, haunts both politicians and public. The fear that the ability to monitor and select for desirable characteristics will lead to the subjugation of the undesirable—or the merely unfashionable—is well-founded.

Not so long ago neuroscientists, too, were guilty of victimising the mentally ill and the imprisoned in the name of science. Their sins are now largely forgotten, thanks in part to the intractable controversy over the moral status of embryos. Anti-abortion lobbyists, who find stem-cell research and cloning repugnant, keep the ethics of genetic technology high on the political agenda. But for all its importance, the quarrel over abortion and embryos distorts public discussion of bioethics; it is a wonder that people in the field can discuss anything else.

In fact, they hardly do. America's National Institutes of Health has a hefty budget for studying the ethical, legal and social implications of genetics, but it earmarks nothing for the specific study of the ethics of neuroscience. The National Institute of Mental Health, one of its component bodies, has seen fit to finance a workshop on the ethical implications of “cyber-medicine”, yet it has not done the same to

examine the social impact of drugs for “hyperactivity”, which 7% of American six- to eleven-year-olds now take. The Wellcome Trust, Britain's main source of finance for the study of biomedical ethics, has a programme devoted to the ethics of brain research, but the number of projects is dwarfed by its parallel programme devoted to genetics.

Uncontrollable fears

The worriers have not spent these resources idly. Rather, they have produced the first widespread legislative and diplomatic efforts directed at containing scientific advance. The Council of Europe and the United Nations have declared human reproductive cloning a violation of human rights. The Senate is soon to vote on a bill that would send American scientists to prison for making cloned embryonic stem cells.

Yet neuroscientists have been left largely to their own devices, restrained only by standard codes of medical ethics and experimentation. This relative lack of regulation and oversight has produced a curious result. When it comes to the brain, society now regards the distinction between treatment and enhancement as essentially meaningless. Taking a drug such as Prozac when you are not clinically depressed used to be called cosmetic, or non-essential, and was therefore considered an improper use of medical technology. Now it is regarded as just about as cosmetic, and as non-essential, as birth control or orthodontics. American legislators are weighing the so-called parity issue—the argument that mental treatments deserve the same coverage in health-insurance plans as any other sort of drug. Where drugs to change personality traits were once seen as medicinal fripperies, or enhancements, they are now seen as entitlements.

This flexible attitude towards neurotechnology—use it if it might work, demand it if it does—is likely to extend to all sorts of other technologies that affect health and behaviour, both genetic and otherwise. Rather than resisting their advent, people are likely to begin clamouring for those that make themselves and their children healthier and happier.

This might be bad or it might be good. It is a question that public discussion ought to try to settle, perhaps with the help of a regulatory body such as the Human Fertilisation and Embryology Authority, which oversees embryo research in Britain. History teaches that worrying overmuch about technological change rarely stops it. Those who seek to halt genetics in its tracks may soon learn that lesson anew, as rogue scientists perform experiments in defiance of well-intended bans. But, if society is concerned about the pace and ethics of scientific advance, it should at least form a clearer picture of what is worth worrying about, and why.

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Media giants

What is the point?

May 23rd 2002
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Media conglomerates still make sense

Ronald Grant

ONE by one in recent times, the fine old media icons have been swallowed up into a handful of ever-bigger media conglomerates. Paramount Pictures (Viacom), RCA (Bertelsmann), Motown (Vivendi), Columbia (Sony), ABC (Disney), Warner Brothers (AOL Time Warner), 20th Century Fox (News Corp): all now belong to the media giants. This steady trend created a sense of inevitability about media conglomeration—until recently. Now the mood has turned so wildly that the clamour is often not only to question the point of media conglomerates, but to argue for their break-up.

The disillusion is understandable (see article). Two of the biggest conglomerates, AOL Time Warner and Vivendi, have been pounded by the markets. They have made record-breaking write-offs of assets that they paid too much for. They have piled up huge debts. Their bosses have failed to deliver on much-hyped promises. But all this has caused a confusion between the underlying logic of media conglomeration and the way in which it has sometimes been pursued.

The strongest criticism has to do with the integration of new media with old. The price paid for new-media assets was often as inflated as the promise they were said to hold. At AOL Time Warner, the Internet business was hailed by many (including, it should be said, *The Economist*) for bringing a transforming new energy to the old media brands of Time Warner. Instead, it has turned out largely to be just another distribution channel. For Vivendi, the vision was of a world of personalised interactive content delivered in part through wireless devices. Today, the futuristic version has been toned down, and the emphasis is back on its old-fashioned movie, music, publishing and TV businesses.

It would be wrong, however, to extrapolate from the wildly exaggerated claims made about new media to the idea that mixing content and distribution in media is itself a flawed concept. To be sure, there are limits to what any single media conglomerate can do in-house. Yet life outside the conglomerates is not comfortable. Big integrated media groups can exploit economies of scale, and their inherent bargaining clout and promotional power, to extract the most value from the content that they control.

As the choice of entertainment, and of ways of consuming it, proliferates, it becomes ever more crucial to create hits, brands and product lines that stand out. Big media conglomerates, with deep pockets and in-built distribution, are well-suited to this job. As the misadventures of so many technology and telecoms companies suggest, creativity is an elusive quality, and the manufacture of content is a peculiarly difficult business to get right. Disney was once the ultimate dream factory; now it is struggling to repeat its past successes. Hollywood has become a finely tuned machine for churning out franchises, sequels and films-made-from-books-and-comics; yet it is in American television, and from inside the big conglomerates, that much of today's most ground-breaking drama is being made.

The challenge for the media giants is, as it has been throughout the history of mass entertainment, to combine the creative spirit, often best fostered in small entities, with the scale and clout needed to finance and distribute the content that they produce. If history is anything to go by, the way they will meet it will be by swallowing the creative independents, growing bigger still—and not by breaking themselves up.

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India and Pakistan

Will there be war?

May 23rd 2002
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Probably, unless Pervez Musharraf can rein in the militants who are attacking India

AP

Get article background

EVEN before the attacks last week on Indian military camps in Kashmir, India and Pakistan had almost a million men squared up along their common border. Now it looks as though preparations for war are being accelerated. This week, Pakistan's ambassador was expelled from Delhi, the coast guard and the merchant fleet were placed under the command of India's navy, and the border security forces under that of its army. There has been heavy shelling across the line of control in Kashmir. On May 21st the most moderate of the main Kashmiri separatists, a man India hoped to talk peace to, was murdered, presumably by one of the many militant *jihadi* groups that operate out of Pakistani-held Kashmir and who oppose such talks. The next day India's prime minister told front-line troops that it was “time for a decisive fight”.

War is not yet inevitable. Sensible military men in India are urging restraint, well understanding that even a limited reprisal—an air-strike perhaps, on the militants' camps—could provoke escalation that might easily spin out of control. The fact that there are nuclear arms on both sides is terrifying on one level, but optimists hope that it will also act as a brake. Yet with each provocation from the Pakistani side, it becomes harder for the Indian government to do nothing—especially now that the “Bush doctrine” is available as ready-made justification for full-blooded reprisal against acts of terror.

At least the world recognises the danger. Foreign peacemakers are flocking to the region. Jack Straw, the British foreign secretary, is visiting next week: Richard Armitage, America's deputy secretary of state, shortly after that. But India's leadership now views General Musharraf much as Ariel Sharon views Yasser Arafat: as unable or unwilling (and in all probability both) to rein in the terrorists—and, therefore, as not worth talking to. Since an attack on India's parliament building last December, there has been no negotiation whatsoever between India and Pakistan.

There is no denying that the general has disappointed. The world applauded in January when he promised to crush extremism, and stop his country being used as a terrorist base. But the delivery has been botched. Yes, five extremist Islamic groups were banned, and 2,000 of their members arrested. But new groups have sprung up in their place, most of the detainees have been released and, says India, infiltration into Indian Kashmir is as active as ever. As the snows melt in Kashmir's passes, the latest attacks appear to confirm the charge.

Could the general rein in the militants, even if he wanted to? Nobody knows for sure. The sacrifices already made for the Kashmiri cause are so great that ending all terrorist activity may well be impossible. The general probably calculates, too, that America will not press him overly hard so long as it needs his co-operation in the hunt for al-Qaeda. This would be a blunder on the American side, helping to make more likely a war whose course nobody can foresee. It is essential for America to use all its muscle to force General Musharraf to do everything he can to end cross-border attacks, and to verify his compliance. There was good news this week, in a renewed pledge from the Pakistani government not to allow its territory to be used for acts of terrorism “in the name of Kashmir”. But India will want more than just more words: and besides, the general himself has previously said that attacks on Indian military targets in Kashmir are legitimate struggle, not terrorism.

It would, however, be wrong to heap all the blame at Pakistan's door. The encouragement of the

Pakistani security apparatus is only one of the things that make the *jihadis* such an intractable problem. Another is the way in which mainly Hindu India has treated mainly Muslim Kashmir since independence. The record of abuses committed by the hundreds of thousands of troops stationed there is a blot on the reputation of the world's largest democracy, as is India's undermining, time and again, of Kashmiri local governments that flirted too obviously with separatism. In Pakistani eyes, arming the *jihadis* is the only available response to an India that refuses to compromise. Land for peace has never featured in the Indian lexicon. Self-determination for Kashmir was promised in 1947, but never granted. The most that is on offer is a degree more autonomy: not enough to satisfy the Pakistani side.

Talk, at least

So any genuinely useful intervention by the Americans must also contain something for Pakistan. What might that be? One vital first step would be to press India back to the negotiating table. Last July at a summit in Agra an accord of sorts was available that would at least have got negotiations going. It was wrecked mainly by Indian intransigence (though General Musharraf's grandstanding also played into the hands of the Indian hardliners). There is no easy way to make India more accommodating. India holds most of Kashmir, has the larger army and enjoys a robust economy. But, India craves recognition as a great power. It must be made to understand that this will not come until it is ready to make a much more concerted effort to engage its neighbour. Pride has to be swallowed, on both sides. The alternative is fearsome.

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Colombia's presidential election

Saving Colombia from itself

May 23rd 2002
From The Economist print edition

Alvaro Uribe leads the electoral field. Whoever wins, what can outsiders do to help?

EPA

Get article background

COLOMBIA has many horrors and imperfections. But it is a democracy—or at least it is one as far as its government's writ runs and until those of its murderous, drug-financed guerrilla and paramilitary armies begin. In its presidential election on May 26th, the voters seem likely to favour Alvaro Uribe, an independent Liberal whose hardline views on law and order have made him controversial in some quarters.

The election takes place three months after the collapse of President Andres Pastrana's effort to negotiate peace with the FARC, the largest guerrilla army. Opposing the FARC are the brutal killers of the United Self-Defence Forces of Colombia (AUC), a right-wing vigilante outfit. Between them, the fast-growing illegal armies now contain more than 30,000 fighters. Small wonder that the government army, with only 55,000 effective troops, has begun to look like a bystander, despite military aid from the United States (see article).

Under Mr Pastrana, American aid was directed to Plan Colombia, a drug-fighting scheme, while Europe gave modest sums to support peace. Now, there is no peace process (save desultory conversations with the ELN, the second guerrilla group) and drug production continues as ever.

Mr Uribe, who may face a run-off ballot in three weeks' time, was a critic of the concessions made to the FARC in the peace talks. But contrary to some claims, he is no fascist. Nor is there any evidence that he is linked, as some allege, to Colombia's right-wing paramilitaries or to its drugs trade. His faults are of a lesser order: he has some dubious friends, he is thin-skinned, he lacks a strong governmental team and a few of his ideas are half-baked. Against this are useful qualities, including political skills and administrative experience. Above all, it is hard to quarrel with his diagnosis: Colombia is in desperate need of law, order, good and clean government, political and economic reform, and personal security.

In the war it now faces, Colombia needs the bigger army and police force that Mr Uribe proposes. But he also wants a 1m-strong civilian auxiliary force. This proposal is fraught with danger. In Central America's wars of the 1980s, similar bodies functioned as death squads. Such a force risks jeopardising the legitimacy that is the government's most powerful weapon, especially since many army officers collude with the AUC, seeing them as allies against the FARC.

What attitude should outsiders adopt if or when Mr Uribe wins? Walking away should not be an option. Americans and Europeans share part of the blame for the conflict. Their prohibition of cocaine has pushed up its price and so fuelled Colombia's fires. And the conflicts in Colombia are a worrying source of instability in the heart of Latin America.

Paying for peace

But it is important to get intervention right. Until now, the United States has laid too much stress on a futile attempt to uproot drug production. Congress should agree to George Bush's request to let American aid be used directly against the illegal armies. Europeans have stressed the need for Colombia to respect human rights. Naturally, they should continue to do so (as should the United States). But they

could also offer to help improve Colombia's police and justice system, in order to create the sense of security under which rights might actually be protected.

For all that, the hard truth is that Colombians cannot expect foreigners to fight their battles for them. The chief effort must come from their own government. If elected, Mr Uribe would be wise to show that he is even-handed about law and order by making early moves against the AUC as well as the FARC. He should think much harder about whether his plans for civilian auxiliaries are wise. And he must teach Colombians patience. They will have to accept that greater security has to be paid for with higher taxes, and that outright military victory is probably a chimera. The best Mr Uribe can realistically hope for is to alter the balance of force so that the rebels accept the need to negotiate a peace based on their accepting democracy. That will take time, no matter who is president.

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About sponsorship

Merrill Lynch

Thunderstruck

May 23rd 2002
From The Economist print edition

The investment bank's settlement with New York state will not help investors

IT IS better to settle a case than to go to court only to fill the pockets of lawyers. That was the calculation behind Merrill Lynch's decision to pay a fine of $100m and accept changes in its organisation and in its methods of paying analysts, rather than fight charges threatened by New York state's attorney-general, Eliot Spitzer. The investment bank may have escaped lightly. But the settlement is unsatisfactory in several ways.

The worst is that it was reached at state level. America's “bulge-bracket” investment banks, of which Merrill is the biggest, are not local, or even national; they are global. It is absurd that the question of how to structure and regulate these giants should be dealt with by a single state. It is equally bizarre that Mr Spitzer and his fellow state attorneys-general should be able to extract cash from a Wall Street firm for their state coffers, when any damage done was to investors all over the country (and abroad). Securities regulation in America has been a largely federal matter ever since the establishment of the Securities and Exchange Commission in 1934. Before the rapacious Mr Spitzer extends his shakedown to the rest of Wall Street, the SEC should take over the case.

This is not to excuse Merrill Lynch's analysts, and especially not the cloddish e-mails that they sent, employing scatological language to abuse companies whose merits they were touting so ardently to investors. Nor is it to deny that investment banks suffer from inherent conflicts of interest; in the 1990s bull market, supposedly independent research analysts came to be treated as mere marketing tools to attract corporate clients. If the behavioural and disclosure remedies imposed by Mr Spitzer help to expose such conflicts, they are welcome. But there are two other objections to the outcome of this case—as well as two wider lessons to be drawn about risk.

The first objection is that, if Mr Spitzer really wanted to eliminate all conflicts of interest between analysts and investment bankers, he has abjectly failed. It may be a good idea to monitor direct contacts between analysts and bankers, to delink analysts' pay from investment banking, to disclose potential conflicts to investors and to appoint a compliance officer to supervise things (see article). But so long as analysts are in the same firm as bankers, no Chinese walls, however high, can eliminate conflicts. Merrill has even managed to secure Mr Spitzer's assent to the practice of sending analysts out with investment bankers on client calls.

If Mr Spitzer has failed to get what he said he wanted, however, that is no bad thing. For the other objection to his settlement is that it will serve only to encourage the belief among investors that somebody besides themselves was to blame for the bubble—and that they should be compensated. Merrill has been careful not to admit any liability, but both it and other Wall Street houses now face several class-action lawsuits. Rather than reach for their lawyers, investors should grasp a few deeper truths about markets: that shares go down as well as up, that new-technology companies are highly risky and that they should never blindly follow the advice of anybody—whether they be bankers, analysts, visitors to Internet chatrooms or even newspapers.

Learn, don't sue

Indeed, rather than look to Mr Spitzer and his like for protection, retail investors should learn an altogether different lesson. The nature of modern financial markets means that investors seldom beat them; and they run bigger risks if they put all their money into only one company, or even into a single

group of companies. Instead of following the stock tips of Wall Street analysts, they would be better advised to buy pooled investment vehicles such as mutual funds. Spread your risks, or you risk losing your money.

And the second lesson? It is about the dangers of e-mail. From Microsoft through Enron and now Merrill Lynch: to put into a near-indestructible e-mail the sorts of comments you might give vent to round the water-cooler is to invite trouble. If Mr Spitzer teaches Wall Street and corporate America nothing else, that at least should be a valuable lesson.

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Letters

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From The Economist print edition

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Fish and Fischler

SIR – A fondness for puns has got the better of serious journalism ("There's a lot of fishy business going on", May 11th). You claim "strong evidence" of what you describe as a "scandal" in the European Commission but all you actually reveal is a coincidence of timing wrapped up in a conspiracy theory. The conclusions which you draw are totally wrong.

The reality is as follows. The commission is preparing proposals for an important reform of the EU's fisheries policy. As very often happens, this item has first been scheduled for discussion at a commission meeting and then postponed for a few weeks while work continues on the papers. This has nothing to do with pressure from any member state and everything to do with the determination of Franz Fischler, the responsible commissioner, to get his proposals absolutely right.

During the course of this work, Loyola de Palacio was among a number of commissioners who wrote to Mr Fischler setting out their views. The commission is a collegiate body in which every commissioner takes part in every decision. Far from being unusual or sinister, the habit of exchanging written views is a routine and healthy fact of commission life. That Mrs de Palacio should take an active interest in this area is all the less surprising since she is a former fisheries minister.

Completely separately, in January this year the commission announced its intention to adopt a major set of staff changes before May 3rd. Steffen Smidt, the head of the fisheries department, had already signalled his inclination to leave the commission well before the end of its current mandate. Mr Fischler's view was that it was best to change the head of the fisheries department before or after, but not during, the negotiation and implementation of the fisheries reforms. The decision to include Mr Smidt in the general package of changes was therefore taken in the interests of the commission, not because of intervention from any member state.

The commission is independent, and determined to remain so. Observe our proposal for fisheries reform when it is approved, watch the due process followed in the appointment of Mr Smidt's successor, then—publicly please—eat your words.

Jonathan Faull
Spokesman for the European Commission
Brussels

Editor's note: Mr Faull's claim that the delay in the fisheries package had "nothing to do with pressure from any member state" is not supported by the head of the European Commission. Romano Prodi confirmed to the *Times* on May 17th that he had taken the decision, following a request by Jose Maria Aznar, the Spanish prime minister. The unusual nature of Loyola de Palacio's intervention in the debate was detailed in our original story. We note also that the commission does not explain why Mr Smidt was the only official involved in the reshuffle to be given just 24 hours' notice of his removal from office.

SIR – Spain is very surprised by the incomprehensible, malicious and biased campaign launched against it with regard to the reform of the Common Fisheries Policy (CFP). It is true that we are alarmed by the contents of the draft proposals, given that fishing in Spain is a very important industry. Spain has amply demonstrated its sense of responsibility by, among other things, decreasing its fishing capacity by over

50%. We strongly support the reduction of fleet capacity but it is entirely possible and desirable to have a modern and competitive fleet. It is not a matter of fishing more but of fishing better. This implies safer vessels and better living conditions for the crews.

Any reform of a common policy is, of course, problematic, given that it is always difficult to unify all points of view. What cannot, however, ever be attempted is to impose the position of certain member states on a group of countries with strong fishing interests. And it is even less acceptable to blame a sole member state because the moment envisaged 17 years ago has now arrived: the full integration of Spain into the CFP and the end of the transitional period [Editor's note: this kept Spain out of certain EU waters]. Now, on the threshold of a new accession, nobody can expect that the affected member state will simply yield in a matter of such political magnitude.

Carmen Fraga
Secretary-general for fisheries
Ministry of Agriculture, Fisheries and Food
Madrid

Japan's bank regulation

SIR – You appear to misunderstand the policies of Japan's Financial Services Agency ("Surreal", April 20th). You claim that "the Ministry of Finance and the FSA concentrates on how to present the bank's bad-loan problems to the public, and on how to manipulate stockmarkets." It is also appalling that you base an article on an unfounded "memo" or dubious facts. No serious press reports in Japan have been based on a supposed memo of which the FSA and the Ministry of Finance have no knowledge.

More seriously, you do not accurately grasp the purpose or the scope of a special inspection. You say that it covers only a fraction of the banking industry's total non-performing loans. The exercise, covering the 13 big Japanese banks, examined the classification of 149 large borrowers and the loans by "main" banks amounting to ¥12.9 trillion ($108 billion) at the end of September 2001. This amount excludes loans already classified as doubtful, which are being disposed of under the defined-policy framework. Also, taking into account the exposures of the big banks other than "main" banks, which normally have the largest exposures to particular borrowers, the exercise has, in effect, reviewed loans amounting to roughly double the amount mentioned above. This also means that roughly three-quarters of the loans requiring "special attention" by the big banks were reviewed. Furthermore, this exercise will certainly have an impact on other banks which extend loans to the same borrowers.

The FSA has made public new measures for developing a stronger financial system. In particular, in order to accelerate the removal of non-performing loans from their balance sheets, banks are further asked to take specific measures to dispose, in essence, of half of such loans within a year and a large part (around 80%) within two years.

The FSA never sought to cover up Japan's financial problems. I share your view of the need for urgency in resolving the problems of non-performing loans. However, by basing arguments on fiction rather than fact, it is you who is living in a "surreal" world.

Takeshi Uera
Director, Public Relations, FSA
Tokyo

Corruption in the air

SIR – Frequent-flyer schemes are inherently corrupt ("Frequent-flyer economics", May 4th). An employee is enticed to give his employer's business to a particular supplier for personal reward yet companies turn a blind eye. Is this because executives all benefit? How many unnecessary or overly expensive flights are made? Claiming that these inducements are a reward for the inconvenience of travelling is hogwash. One assumes that employees are adequately rewarded (and suitably taxed) for all the "inconveniences" of their jobs. Perhaps it is time that shareholders said something.

Ed Harbuz
Auckland

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India and Pakistan

A deadly game

May 23rd 2002 | DELHI AND ISLAMABAD
From The Economist print edition

Once again, Kashmir and terrorism bring two nuclear powers to the edge of war

Get article background

HAS Pakistan blinked again? In the past ten days, after a series of particularly ugly attacks, India's war preparations have moved into higher gear. On May 22nd the prime minister, Atal Behari Vajpayee, told soldiers near the front line in the disputed state of Jammu and Kashmir, to prepare for a “decisive battle”. The first war between nuclear-armed powers looked imminent.

Hours after Mr Vajpayee's threat Pakistan repeated a promise it made in January, the last time India appeared to be on the verge of attacking. “No organisation in Pakistan will be allowed to indulge in terrorism in the name of Kashmir,” the government said. Will India now pull its troops back to peacetime positions? Will the two countries at last begin resolving their dispute over Kashmir, which has poisoned their relations and triggered two wars? Not yet. India had no immediate reaction to Pakistan's latest statement.

And so, until India is convinced, Mr Vajpayee's threat stands. It reverberates far beyond Pakistan. India has no wish for a full-scale war, but the sort of punitive operation it has in mind could turn into one. That would present the gravest risk yet of a nuclear strike by one nuclear-armed power against another. The United States and other outside powers would not be merely bystanders. The United States (though it refuses to confirm this) is said to have hundreds of troops hunting down remnants of al-Qaeda, including perhaps Osama bin Laden himself, in Pakistan. Pakistan's army is helping them. Their mission would be jeopardised by any Indo-Pakistani war. The consequences for the brittle regime of Pakistan's president, Pervez Musharraf, whom the United States sees as the most reliable bulwark available against anti-American terrorists in the region, are incalculable.

All this gives the outside world a large stake in heading off war. Its emissaries can make a difference if they persuade Pakistan to end its sponsorship of “cross-border terrorism” and persuade India that Pakistan means it. But India's indignation is so intense, and the attacks against it so dastardly, that the would-be peacemakers may not arrive in time.

The latest outrage was the killing on May 21st of Abdul Gani Lone, the most moderate of the Kashmiri leaders demanding independence from India (see box). No group has taken responsibility for the killing, which Pakistan and India have blamed on each other. To India, though, it is a blow. Many Indians admit

that they have misgoverned their only Muslim-majority state, and that the militancy which broke out at the end of the 1980s has its roots in the justifiable grievances of ordinary Kashmiris.

The government has been promising, in effect, to make amends. Mr Vajpayee has said that the state elections due in the autumn will be “free and fair”, a tacit admission that earlier elections were not. He had hoped that moderate separatists like Mr Lone would participate, or at least use the occasion to open talks with the government about a settlement short of secession. After his slaying, presumably by Islamic militants, who would dare?

The murder occurred a week after terrorists killed more than 30 people, mostly soldiers' wives and children, at an army camp in Jammu. Smaller assaults have filled the intervening days. Such attacks seem to be aimed at disrupting the forthcoming elections. They also indicate that, despite recent splits among some anti-Indian militias, terrorists can operate freely in the state. To India they are appalling proof that its internal affairs are at the mercy of murderous fanatics.

The general and the terrorists

India has no doubt that these attacks originate in Pakistan with at least the tacit consent of General Musharraf. He had promised to crack down on anti-Indian terrorists after they attacked India's parliament on December 13th, prompting India to mobilise its army and threaten retaliation. Since then, say the Indians, terrorist camps have reappeared in the part of Kashmir controlled by Pakistan, and the level of violence on India's side has returned to its former intensity.

General Musharraf may not be guilty of all the charges against him. The most vicious attacks look as if they are aimed at provoking a war, which the Pakistani president does not want, as well as derailing Kashmir's election, which he would presumably welcome. But India is probably right to believe that Pakistan, at least until this week, saw the militants more as assets than as liabilities. The United States, normally eager to cast its staunchest ally in the war on terrorism in as favourable a light as possible, admits in its annual report on terrorism, published this week, that questions remain about whether Pakistan will honour fully its pledge to oppose terrorism against India.

Pakistan must now lay those questions to rest. The government's renewal of its promise to do so shows that it takes India's threats of reprisal seriously. Pakistani analysts now expect General Musharraf to follow up immediately by shutting down the camps and blocking infiltration into India's side of Kashmir. This may be something short of an irrevocable break with *jihadi* militants, who have been the mainstay of Pakistan's half-century-long campaign to claim all Kashmir for itself. But it might persuade India to withdraw its troops from the border and open negotiations. On the other hand, if India fights, the terrorists could be dispatched by Pakistan into India en masse.

India's war aims would be, as one military analyst put it, to “raise the cost” to Pakistan of supporting “cross-border terrorism”. The probable means would be an attack aimed directly at the problem: the camps on Pakistan's side of Kashmir, which harbour the militants who sneak across the mountains—with the help of Pakistan's army—and into Indian Kashmir. This might take the form of quick raids, either by air or by teams of ground commandos. A more ambitious tactic would be to capture ground on Pakistan's side of the Line of Control (LoC) to interdict terrorists before they get across.

Both strategies would have the virtue of confining the hostilities to what Pakistan calls “Azad (free) Kashmir”, which it regards as disputed ground rather than as an integral part of its own territory. India would hope to inflict on Pakistan a stinging but local defeat. “We will impose a cost in PoK [Pakistan Occupied Kashmir] and leave the onus of escalation in the international border” (between India and Pakistan proper) to General Musharraf, advises K.K. Nayyar, a retired admiral.

The risks are great. One is that raids on terrorist camps, which are close to where people live, could end up killing many civilians. Aeroplanes, too, can be shot down. The bigger risk is that one of the combatants will expand the conflict beyond Kashmir. Pakistan's military chiefs think they have the advantage there. They would hit back with the air force or seize territory somewhere on India's side of the Line of Control. Faced with defeat in a targeted offensive, India would then be the one to open a new

front along the international border. That is where India's army can hope to beat Pakistan. Pakistan might counter-attack in a key Indian state such as Punjab, hoping to provoke international intervention to stop the war. “We can expect a tough and robust response from Pakistan,” says a western defence analyst. A general-president who doubts his own popularity and is portrayed as a traitor by radical Islamist groups cannot afford to accept defeat at the hands of an enemy that Pakistanis sometimes despise as much as they fear.

In desperation, Pakistan could resort to nuclear weapons. India has said that it will not be the first country in a conflict to use them. Pakistan has made no such promise. Indian planners think they know Pakistan's threshold of tolerance; India's war aim would not be to dismember Pakistan as it helped to do in 1971, when Pakistan's eastern wing broke away to become Bangladesh. But does Pakistan believe that, and how long would it wait to find out? India's hawkish home minister, L.K. Advani, said in a newspaper this week that India's government would “win the proxy war like we did in 1971,” a reference to Pakistan's India-assisted break-up. Pakistan's strategists are likely to have taken note.

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Kashmiri aspirations

India's kind of separatist

May 23rd 2002 | DELHI
From The Economist print edition

The killing of Abdul Gani Lone removes a force for peace

Get article background

"A GROUNDSWELL of sentiment for peace." So Indians tend to judge the mood in Kashmir these days. Behind this thought lies the realistic admission that, after ten years of militancy, ordinary Kashmiris are exhausted by violence rather than in love with India. India hopes that peace-craving Kashmiris, most of whom want independence, will turn out in force for state elections this autumn, signalling their willingness to remain Indians while choosing a genuinely representative government.

Abdul Gani Lone figured prominently in this scheme. He was, to be sure, a separatist. Once a minister in Kashmir's state government, he became disillusioned with Indian rule, joined the separatist cause and spent time in Indian jails. At the time of his murder on May 21st he was one of seven members of the executive council of the All Party Hurriyat Conference, an umbrella group of separatist parties that disagree about almost everything else.

But Mr Lone was India's kind of separatist. He questioned Pakistan's claim to Kashmir, preferring independence to absorption. He took issue with separatists who tried to turn the cause into a religious war. Violence, he thought, had ceased to be useful. India hoped that Mr Lone would re-enter Kashmir's electoral politics, or at least help negotiate a settlement that would reconcile Kashmiris to remaining Indians.

Mr Lone had company. Some of his Hurriyat colleagues such as Mirwaiz Umar Farooq, a young religious leader, seem to favour peace and negotiation. Several separatist leaders outside the Hurriyat, such as Shabir Shah, seem even more willing to co-operate with India. The Indian government has been heartened by recent reports that the oldest of the Kashmiri militant movements, Hizbul Mujahideen, has split. Its top bosses, based in Pakistan's zone of Kashmir, remain staunch advocates of violence; some of its Indian-Kashmir-based leaders may be edging towards compromise. But Kashmir is still crawling with killers who take inspiration from religion and guidance from Pakistan.

India thinks that Mr Lone was killed by such forces. His supporters agree. When Syed Ali Shah Geelani, Pakistan's staunchest backer within the Hurriyat, came to Mr Lone's house after his murder, the mourners kept him away.

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Nuclear rivals

The risks they run

May 23rd 2002
From The Economist print edition

It's worse than you thought

Get article background

A WAR between two nuclear-armed states that share a border and a blood-feud is a chilling prospect. So why are India and Pakistan undeterred? Ever since they blasted their way publicly across the nuclear threshold in 1998, both have resented the notion that their finger on the nuclear button is somehow more dangerous than the finger of one of the more established nuclear powers: the United States, Russia, Britain, France or China. If America and the Soviet Union could manage their nuclear rivalry safely for decades, why not India and Pakistan, with far fewer weapons to toss around?

AP

Ready and willing

In fact, America and the Soviet Union kept their contest a cold one precisely for fear of the nuclear dangers it entailed. They battled out rivalries through proxies, not across a disputed frontier. When Russia and China clashed on their remote Ussuri River border in 1969, they were not mobilised, as India and Pakistan are, for a no-holds-barred fight.

Yet the cold war at times brought the world perilously close to disaster. The 1962 Cuban missile crisis ended peacefully only because Khrushchev understood when to blink, and Kennedy when to let him. Back from the brink, the two installed new hotlines and eventually sat down to detailed arms-control talks. India and Pakistan have had plenty of time—their nuclear rivalry predates their 1998 nuclear-weapons tests—but have built no such safeguards.

Both accept that a nuclear war between them—even the sort of “limited” exchange that wilder-eyed armchair strategists on both sides sometimes speculate about—would be a disaster. Both insist that, despite the testing of increasingly far-flying nuclear-capable missiles, they are not engaged in a nuclear arms race. Both have promised repeatedly to explore confidence-building measures to help avoid a nuclear exchange by miscalculation. But the promises have not been kept.

Little is known about their nuclear capabilities or intentions. Extrapolating from the amounts of bomb-grade uranium and plutonium each is thought to possess, India may have up to 95 nuclear weapons and Pakistan up to about 50 (see table), though possibly both have far fewer. A draft nuclear doctrine published in 1999 by an advisory group suggested India needed weapons that could be launched promptly from land, from the air and from the sea—implying that its deterrent could expand into the hundreds.

More moderate politicians, such as India's foreign minister, Jaswant Singh, have suggested a less aggressive posture: a capability to respond to a nuclear attack, along with a promise that India would not itself be the first to use nuclear weapons. But India tends to size its nuclear ambitions against its big neighbour, China. Pakistan, which has a much smaller conventional army than India's and sees its nuclear weapons as the only way in a last resort to even up any fight, is determined (with past Chinese help) to match India every step of the way. Both claim to be able to build not only fission bombs like those dropped on Hiroshima and Nagasaki, but also more fearsome hydrogen bombs.

Face-off

Estimates, end 1999

	Weapons-grade plutonium kg	Weapons-grade uranium kg	Nuclear-weapon equivalent
India	240-395	Small quantity	45-95
Pakistan	1.7-13	585-800	30-52

Source: "India's and Pakistan's Fissile Material and Nuclear Weapons Inventories, End of 1999", by David Albright. October 11th 2000. Institute for Science and International Security

And both now have missiles able to carry such weapons over hundreds of kilometres in a matter of minutes. In a crisis, the temptation would always be to hold these missiles on a hair trigger, to be launched on warning of an incoming attack rather than lost to an enemy strike.

All the more important, then, to be clear about who has authority to press the nuclear button and when; to have thought through the implications of doing so; and to understand the thinking of the adversary. Pakistan has an established chain of military command over its weapons, though when these have been readied for possible use in the past, including during the 1999 Kargil crisis, the chain seemed to bypass the civilian government of the day. In India, the situation is the reverse: only the prime minister is thought to have the authority to hit the nuclear button. India's military planners have never been much consulted about the military implications of his actually doing so. What is more, says George Perkovich of the Carnegie Endowment for International Peace, neither side has a clear idea of where the red lines are—the actions by one that could provoke a nuclear response from the other.

That results from another dangerous omission, argues Michael Krepon of the Stimson Centre: the two governments have "no trusted lines of communication, no escalation controls and no nuclear risk-reduction arrangements" in operation between them. The only formal agreement the two have is one, concluded in 1988, that says they will not attack each other's nuclear facilities. Hotlines set up between leaders of the two countries have always fallen into disuse. And the best risk-reduction measure by far—the decision not to mount warheads on missiles or load bombs into aircraft—is always the first to be abandoned in a crisis. With so little effort to avoid the dangers, small wonder that India and Pakistan are seen as the most dangerous of nuclear rivals.

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George Bush and September 11th

A systemic failure

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What didn't the president know and why didn't he know it?

EPA

THE week-long row about the president's intelligence briefings before September 11th has something in common with the controversy over the administration's role in the Enron scandal. No one at the White House seems to have done anything wrong during the event at the heart of the "scandal". Later, though, several members of the administration provided explanations that were disingenuous. And, rather as the Enron affair revealed systemic problems within the business world, the new scandal is prompting questions about the way America's intelligence agencies work.

According to his national security adviser, Condoleezza Rice, George Bush was told in his daily intelligence briefing on August 6th that Osama bin Laden might use terrorist hijackings to attack the United States. She described this briefing as "analytic" not predictive: it described al-Qaeda's modus operandi without giving specific warnings. In response to the inevitable questions asking whether the report contained anything that might have helped forestall the attacks, the president has robustly defended his (in)action. The criticism was "second-guessing": "Had I known that the enemy was going to use airplanes to kill on that fateful morning, I would have done everything in my power to protect the American people."

This argument was convincing, because it is inconceivable a president would have knowingly taken risks with a threat of this sort. Mr Bush's poll numbers have barely budged, suggesting that Americans believe him. It is also far from clear what action could have prevented the attacks. This week saw a series of dire warnings. The vice-president, Dick Cheney, said further terrorist atrocities were almost inevitable; Robert Mueller, the head of the FBI, said there would be suicide bombers in America; Donald Rumsfeld, the defence secretary, told a Senate hearing that terrorists are sure to use nuclear, chemical or biological weapons eventually. Yet, even now, it is hard to know what to do about it. Before September 11th, it was even harder.

Where the administration plainly deserves censure is for some of the official comments it has made. Last week, for instance, Ms Rice claimed that "I don't think anybody could have predicted that these people would...use an airplane as a missile." America's spies surely could have done so, given that at least two terrorist plots to do exactly that had been foiled before (these had planned to crash aircraft into the Eiffel Tower and the headquarters of the Central Intelligence Agency).

Ms Rice also said that "the overwhelming bulk of the evidence was that this was an attack that was likely to take place overseas." Maybe. But, according to the *Washington Post*, the August 6th briefing was called "Bin Laden Determined to Strike in US." It was mainly about the threat of domestic attack. Indeed, it had been commissioned by Mr Bush because so much intelligence had been focused—wrongly—on al-Qaeda's operations abroad.

Even more questionable statements were made after September 11th. On September 17th, Mr Mueller said that "there were no warning signs that I'm aware of that would indicate this type of operation in the country." Now his officials say that both he and perhaps the attorney-general were told soon after the attacks about a report written in July from the FBI office in Phoenix. This report, based on over a year's research, argued that Mr bin Laden might be sending followers to train at flight schools in America. It is not clear when the two high-ups read the report, and they have only recently told Mr Bush about it.

More generally, the Bush administration seems culpable of a broad libel against Bill Clinton. Ever since September 11th, Republicans have repeatedly claimed that the former administration was less diligent in guarding America against such attacks than Mr Bush. Spies who reported to both White Houses say privately that this is rubbish (at least until September 11th). People like Ms Rice were much more concerned about missile treaties than obscure Afghans. The new revelations add to that picture. Unsurprisingly, one of the first Democrats to demand a full inquiry was Hillary Clinton.

This does not reflect particularly well on the administration. (It also adds to the suspicion that one reason why Mr Bush kept George Tenet, the CIA's director, in his job after the worst intelligence failure since Pearl Harbour was because Mr Tenet could have pointed out that Mr Bush was no better than Mr Clinton). But this has more to do with public relations than with what really went wrong.

Those systemic faults all seem to revolve around the chaotic system of intelligence that Messrs Tenet and Mueller supervise. For instance, the prescient report from Phoenix drowned in the morass of FBI bureaucracy: it was circulated at first among a dozen people, but seems not to have been forwarded to the bureau's head of counter-terrorism.

A month before the attacks, one of the suspected terrorists, Zacarias Moussaoui, had been taken into custody in Minnesota on immigration charges. Staff at the flight school where he had studied apparently told local FBI agents that they wondered what on earth someone was doing learning how to fly an aircraft but not land it. When the agents then asked for permission to search his computer files, they were turned down by the Justice Department on grounds of insufficient evidence. By then, French intelligence services were telling their American counterparts that they had long suspected Mr Moussaoui of links with al-Qaeda. The CIA ran background checks on him. But no one told the White House's anti-terrorism group.

What lessons should be learned from all this? Before September 11th, Mr Mueller promised to shake up the FBI's bureaucratic secrecy. Clearly, that is needed. A congressional inquiry into America's spies was arranged earlier this year. Now there are demands for another big investigation into what was known about September 11th—perhaps by a big grandstanding congressional commission, perhaps by a smaller administrative task-force. The Democrats, led by Senator Tom Daschle, want as large a commission as possible, hoping to shame any Republicans who defy them. Mr Cheney says this would be a security risk.

Whatever kind of body emerges, its task will be to assign blame. That may be a good thing. Heads have not rolled at either the CIA or the FBI; the only “punishment” has been a lot more money. A little clearing of the air would be good, and might even prompt a reorganisation of the whole intelligence apparatus. But in an open society there is only so much that intelligence services can do. As Mr Mueller put it this week, “There will be another terrorist attack. We will not be able to stop it.”

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Cuba policy

Why mess with 40 years of success?

May 23rd 2002 | MIAMI
From The Economist print edition

Demographics may yet succeed where reason has failed

MIAMI'S harder-line Cuban exiles had been looking forward for months to the White House review of Cuba policy. They hoped for tighter restrictions on travel to the island, more money for Radio and TV Marti, the federally-run stations that beam propaganda across the Florida Strait, and perhaps even an indictment of Cuba's leader, Fidel Castro, for the shooting down of two exile aircraft in 1996. In the event, they got rather less. Mr Bush even suggested, with a softness more reminiscent of former President Jimmy Carter on his recent trip to Havana, that postal service would be resumed with the island and that NGOs would get money to send Cubans help.

But the president, speaking to a cheering crowd of Cuban-Americans in Miami, was implacable on the most important thing: America's trade embargo against Cuba, in place more or less since Mr Castro's takeover in 1959, would continue. Mr Carter, on his visit, had called for the embargo to end. Mr Bush was having none of that. He ringingly endorsed the embargo, and promised to veto any attempt by treacherous legislators to water it down.

Only on certain conditions would he relent: if Mr Castro allowed opposition parties and free trade unions, if he freed all political prisoners, and if he allowed human-rights organisations and international observers to ensure the fairness of elections in 2003. “Once, just once,” Mr Bush challenged him, “show the world you respect Cuban citizens enough to listen to their voices and count their votes.” For good measure, Cuba was included, as expected, on the list of state sponsors of terror released the next day by the State Department (see article).

The president's hard line can only have done him good where it counts: in finely-balanced Florida, where he almost lost the 2000 election and where his brother Jeb, the governor, is up for re-election in November. On the day of his speech, a $25,000-a-couple fundraiser at the home of Armando Codina, a Cuban-American developer, brought in $2m for Republican causes. According to a new study by Cynthia Thomas, a Dallas public-policy analyst, in the past three years Cuban-American business executives have contributed an estimated $1.8m to Democrats and Republicans alike. But Republicans see Cuban exiles as a dependable store of votes, and as their proportion of the Latino population of Florida has shrunk—from 43% in 1990 to 32% today—so the Bush brothers are all the keener to hang on to them.

Keep it in the family

Increasingly, however, the administration's stand on Cuba could be out of step with American opinion. Farmers and business groups, who see the island's potential, have been pressuring Congress for years to end the embargo. Numbers of politicians, both Democratic and Republican, agree that the embargo has only strengthened Mr Castro (four decades is quite a long time for a strategy to fail). Bill Clinton got very close to ending it, before Mr Castro shot down the exile aircraft.

The most interesting change, though, could be demographic. About 250,000 Cubans, most of them young, have come to America since the new migration accords of 1994. A recent poll, commissioned by the Miami-based Cuba Study Group, found that although 61% of exiles still support the embargo, 52% think sanctions should no longer be the focus of American policy. Some 56% would favour an amnesty for Castro officials who co-operated with a transition to democracy, and 46% would like the ban on tourist travel lifted.

The same study also found that 48% of Cuban exiles are sending precious dollars home, bolstering the Cuban economy to the tune of $600m-$950m a year. A majority would like to send more to the

beleaguered island if they could. Despite the reinforcing of the wall between America and Cuba this week, family feeling should break it down eventually—though not before Jeb has been safely re-elected.

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State-sponsored terrorism

The seven deadly sinners

May 23rd 2002
From The Economist print edition

An annual exercise—with a chilling new relevance

“NO COUNTRY, no nation, has the luxury of remaining on the sidelines, because there are no sidelines,” announced Colin Powell. The State Department's annual report on global terrorism documents the effort to track down al-Qaeda and other scoundrels. It also picks out the seven usual suspects: Cuba, Iraq, Iran, Libya, North Korea, Sudan and Syria. None of these governments is known to have direct links with al-Qaeda, yet they do sponsor (or harbour, in Cuba's case) other terrorists; and they all have expertise that could help build nuclear, chemical, biological or radiological weapons.

Their contacts, from the Basque separatists and Irish Republican Army nationalists perched in Cuba, to Lebanese and Palestinian groups funded or armed by Iran, make up a dishonour roll of the terrorist international. Not for the first time, Iran is picked out as “still the most active state sponsor of terrorism”.

But the report also gives credit where due: it distinguishes moderates in Iran who would like to end terrorist support from hardliners bent on using such groups to attack Israel. Libya and Sudan get good marks for trying to mend their ways, though al-Qaeda and the Egyptian Islamic Jihad still use Sudan as a safe-haven for logistical purposes at least.

North Korea signed more counter-terror conventions in 2001, but failed to offer help to track terrorists or their finances, and also failed to take the steps (booting out some resident ageing terrorists, curbing weapons sales) that would get its name struck off the list. Syria has co-operated a bit against al-Qaeda, but otherwise is still a staging post for groups operating in the Middle East. Cuba signed all 12 UN counter-terrorist conventions, but plays host to many of Latin America's most-wanted. Iraq failed to condemn the September 11th attacks and dabbles in terrorism, though mostly against Iraqi dissidents.

It is not just the shame of being named that stings. By law, countries on this list cannot buy weapons from the United States and cannot receive American aid. America will also vote against loans to them by the World Bank. Terrorism, after all, shouldn't pay.

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Welfare reform

A howl from the states

May 23rd 2002 | CHICAGO
From The Economist print edition

One of Bill Clinton's successes may be undermined by a new House bill

Get article background

TO HEAR state welfare officials tell it, they are being treated like children who have brought home near-perfect school reports only to be sent to their rooms without supper. The House of Representatives passed its vision for the future of welfare reform on May 16th. In the eyes of many officials in the states—the front line in America's battle to change the way it looks after poor families—the plan involves too much federal micromanagement and too little flexibility.

This hostility is interesting, because the bill that got through the House cleaves very closely to George Bush's own proposals. Mr Bush probably always expected a struggle from the Democrats (the bill got virtually no support from them). Now he also faces growing opposition from the states, which have been praised for doing a good job: since Bill Clinton signed a (Republican-inspired) reform in 1996, welfare rolls have dropped by 70% in seven states (see table).

The states like some things in the House bill. It would maintain the current level of funding for welfare block-grants to the states, some $16.5 billion a year, even though the number of welfare recipients has fallen by more than half. It would also allow states to continue to keep money that is not spent in a given year, and give them more flexibility in spending it. And it would offer waivers to states trying to simplify rules for families eligible for more than one welfare programme.

Mums on the move
Largest % reductions in welfare recipients

	Aug 1996	Sep 2001	% change
Wyoming	11,398	883	-92.3
Idaho	21,780	2,223	-89.8
Florida	533,801	125,529	-76.5
Illinois	642,644	161,318	-74.9
Louisiana	228,115	62,199	-72.7
Wisconsin	148,888	43,031	-71.1
Colorado	95,788	27,815	-71.0
US total	12.2m	5.3m	-56.4

Source: Administration for Children and Families

The issue ruffling the most feathers is the mandatory work requirement. The current law requires that 50% of a state's welfare recipients work at least 30 hours a week. The bill passed by the House would require 70% of a state's welfare recipients to be in supervised activities for 40 hours a week (24 hours must be actual work; the remaining 16 hours has to be something the states approve of). The more work welfare people do, goes the theory, the more respected they will be. Mr Bush promised “hope, dignity and independence” for millions of Americans.

The states resent this interference. “We thought we had earned our way out of such prescriptions,” moans Elaine Ryan, director of government affairs for the American Public Human Services Association (APHSA). “The best way to address a changing caseload is to ensure there is maximum flexibility for the states,” complains Doug Howard, Michigan's welfare administrator. “There is almost nobody who runs a programme who thinks this is a good idea,” says Gordon Berlin, a senior vice-president of Manpower Demonstration Research Corporation, a social-policy consultancy.

To be fair, many state politicians are keeping their disappointment private. Some lost their credibility when they screamed “wolf” over Mr Clinton's original welfare reform. Many Republican governors are reluctant to criticise Mr Bush. But it is plain where they stand. In April, the National Governors Association and APHSA conducted a joint survey of governors and state welfare administrators; 41 of the 47 states responding said that the expanded work proposal would force them to make fundamental changes to their state welfare strategies.

Mr Berlin claims that the huge drops in the welfare caseload so far were due to a perfect set of circumstances. The economy was booming; tougher welfare laws pushed people into work at the same

time as a more generous Earned Income Tax Credit (EITC) made low-wage jobs more attractive; robust state budgets provided money to ease the transition from welfare to work; those most eligible to work were the first to leave the welfare rolls. Those perfect conditions have disappeared. The states are short of cash; unemployment is rising; the remaining welfare recipients have fewer skills.

Welfare or workfare?

Even in the good times, the only way that states achieved their required 50%-of recipients-at-work rate was thanks to a giant loophole. The “caseload reduction credit” allowed them to knock one percentage point off that target for every percentage-point drop in the state's welfare caseload. Since the national caseload fell by more than 50%, the required participation rate in many states was effectively zero. A new “superachiever credit” offers a much smaller loophole.

There are similar protests about the number of hours welfare recipients have to work. Forty hours a week may well be too long for single parents with young children. Very few single mums do that much work now, argues Sheldon Danziger of the University of Michigan. It would also require more money for child care. The Democrats wanted $11 billion; the House bill includes $2 billion.

Welfare experts suspect that the only way to meet more aggressive work requirements would be through some kind of government workfare. “In essence we would replace a programme geared towards helping people leave welfare for work (or avoid welfare altogether) for one geared towards making those on welfare participate in ‘work-like' activities,” complains one Maryland official.

The biggest complaint is that the House has abandoned the winning formula of 1996: devolution and flexibility. Ideally, Congress ought to set broad goals and write cheques, while allowing the states to design the programmes themselves. The Senate, controlled by the Democrats, will soon take up the bill. A group of senators on the Finance Committee, which has authority over the bill, has already said that they will demand changes. The states will be watching closely.

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Oddball politicians

The Ed who hopes to do a Jesse

May 23rd 2002 | TOMAH, WISCONSIN
From The Economist print edition

Is Wisconsin's next governor going to be its own Jesse Ventura?

AP

Tommy and Ed

The fight for Wisconsin's governorship may spring a Minnesotan surprise. Not only is one of the candidates a former bartender, boxer, prison guard, professional gambler, car-factory worker and snowplough driver. Ed Thompson is also the younger brother of Tommy, who held Wisconsin's governorship for 14 years and is now George Bush's secretary of health. But he is running, not in his brother's Republican footsteps, but as a dairyland version of Jesse Ventura, the ex-wrestler who half-Nelsoned his way to the governorship of Minnesota in 1998.

Unlike his law-student elder brother, Mr Thompson says he was educated in the "school of hard knocks". In the early 1990s he calmed down, and ran a popular bar-cum-meeting-hall in Tomah called the Tee-Pee Supper Club. He became the "most apolitical person in the world" until December 1997, when the police confiscated four illegal nickel-poker machines and all the money in the Tee-Pee till. Furious about the state's gambling laws, he argued his case fiercely and ended up with a drastically reduced fine—paid by his lawyer, because he refused to give the state one red cent. Soon afterwards he lobbied successfully for more relaxed gambling legislation. By 2000 he was mayor of the little town of Tomah, and then the Libertarian Party came looking at him for the governor's race.

He did not expect, or get, his brother's blessing. Tommy Thompson predictably appeared at a fund-raising meeting for the incumbent Republican governor, Scott McCallum. The younger Thompson's politics is vinegar to his brother's Republican oil. "Tommy was a builder of prisons, and I want to tear them down," he says. He also wants to get Wisconsin off the list of America's ten highest-taxed states, where his brother left it; fix its $1-billion budget deficit by cutting bureaucrats' salaries and selling the governor's aircraft; expand its school-voucher system; and end what he considers fruitless drug-control policies.

This sort of stuff goes down better with Mr Ventura, who has given Mr Thompson his blessing. Both men have a blue-collar background, a penchant for off-the-cuff remarks, and libertarian leanings. But Mr Ventura's blessing is a less powerful sacrament than it once was. The rumbustious governor's approval rating is well below 50%, and he recently made state history when the legislature overrode his veto for the ninth time.

Mr Thompson seems a more modest creature than Mr Ventura. Rather than trying to bulldoze his way through problems, he talks about the importance of surrounding himself with intelligent advisers. He admits that politics is a "whole new world", where he has to struggle with jargon, the slog of public appearances, and people saying nasty things. Still, "nobody could have a better education for this job than me." Professional politicians read reports on prisons; he worked in one. His brother learned to negotiate with trade unions; Ed was a union member.

The bar bore's man

Anyway, Wisconsin may not be all that hard to govern. Despite a number of scandals in recent months, about matters ranging from sexual impropriety to campaign finance, the state is not in need of a major

overhaul. It has a history of being an innovator in subjects like pensions and welfare. But the dominant theme of its politics has always been a simple pursuit of good governance, which requires more in the way of common sense than theoretical genius. Today's Wisconsinites may just be frustrated with their current leaders, and want some fresh political air.

In the opinion polls, Mr Thompson is doing about as well as Mr Ventura was half a year before election day; he has around 10% backing. As Mr Ventura did, he is hoping to persuade students and other new voters to give him a victorious surge. One major hurdle will come on September 10th, when Wisconsin has its “straight-ticket” primary, meaning that anyone who wants to vote for Mr Thompson must also support all the other Libertarian candidates on the ticket. He needs 6% of the primary vote before the state will give him any campaign money.

It will be an uphill battle, but even some of his opponents seem to suspect he may win. One Democratic official notes that Mr Thompson's support consists of “hunters, tavern owners, guys who hang out in taverns and disaffected guys who say, ‘Ah, he's the only one who talks sense.' ” Since Madison's *Capital Times* has pointed out that a third of all Wisconsinites hunt or fish regularly (proportionately more than in any other state except Minnesota), and since the Badger State revels in having more than one bar for every 100 Wisconsinites, maybe Mr Thompson's chances of doing a Jesse are quite good.

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Video games in politics

Ventura adventure

May 23rd 2002 | MINNEAPOLIS
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Minnesota has an idea for getting the voters more involved

In one game, the aim might be to lop Minnesota lawmakers off at the knees with a giant sword. In another, you would manoeuvre yourself around the congressional chamber in order to prevent procrastinating legislators from going home early when they still have a budget deficit to fix. For more earnest players, there could be an exhilarating series of case studies on how to pay for public transport, fix taxes, and so on.

Maybe not the sort of thing your nephew drools over in the electronics shop. But it may help Minnesota's governor, Jesse Ventura, to get re-elected in November. His campaign committee has a proposal (from an as-yet-unnamed designer) for computer and video games that will applaud his record and explain what he wants to do in a second term. Mr Ventura has yet to announce his candidacy and is lagging in the polls. But if he does run, he may ask the voters to put themselves in his shoes, electronically.

The use of gaming technology for political ends is still uncommon in America. Still, some quarrels already have their own games. A website called newgrounds.com recently got flak for a game called Kaboom!, in which the players are Palestinian suicide bombers making their way towards America. A Colombian paramilitary group, the United Self-Defence Forces (AUC), offers a game in which you can shoot Marxist guerrillas.

Will games with domestic themes stir the voters? Some people say that, if violent videos produce aggressive behaviour in children, it should be possible to excite grown-ups with political messages. But psychological processes are hard to predict. And the adult audience for games may be limited. The National Institute on Media and the Family estimates that only 26% of Americans over the voting age of 18 play video games, compared with 92% of the under-18s.

If there is a market, Mr Ventura may be the person to open it up. Mr Ventura's team has sold over 4,500 “bobblehead” dolls, flimsy plastic figurines of the governor with a wobbly head, since last November. Perhaps it was only a matter of time before video games took a role in the political world. For what is politics, ask a growing number of cynics who observe the frailties of modern representative democracy, if not a game?

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Elvis Presley

The other jubilee

May 23rd 2002 | MEMPHIS
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A case-study in popular culture and intellectual-property law

AP

One for the money

MOST people agree that Elvis died on August 16th 1977. But the legend lives on. And so does the legend's ability to generate big bucks. Thanks largely to Elvis Presley Enterprises (EPE), a company set up to manage the singer's estate, the King is worth more dead than he ever was alive.

His 25th anniversary looks set to be a big deal across America. Bertelsmann Music Group (BMG), which owns RCA, the label Elvis moved to in 1955 after making his revolutionary debut with Sun Records, has announced its plans for an “unprecedented” marketing campaign to promote Elvis's vast back-catalogue of material. Elvis is still BMG's bestselling artist, having shifted more than a billion albums and singles worldwide. A compilation of his number-one hits will go on sale in October, and several of his songs will feature in a forthcoming Disney blockbuster, “Lilo and Stitch”. And at Graceland, the ground zero of Elvismania, a whole host of events has been scheduled for this year's Elvis Week (August 10th-18th).

Depending on your point of view, EPE is either the faithful custodian of Elvis's good name or a fire-breathing, laughably paranoid dragon at the gates of the Kingdom. As the assignee and registrant of all trademarks, copyrights and publicity rights belonging to the Presley estate, EPE has staked a legal claim to practically every aspect of the great man's life and work. If he sang it, said it, signed it, owned it or wore it, it belongs to EPE.

EPE's lobbying influenced the Tennessee legislature's decision to pass the Personal Rights Protection Act in 1984. The act holds that “rights of publicity” remain in place even after a person's death, and pass on to that person's heirs and executors in perpetuity. The law does not apply to ordinary folk, just to celebrities with a strong public persona. Elvis has become something of a case study in intellectual-property law, as EPE has energetically defended its right to control his posthumous image in a series of court battles.

In 1998, for instance, the company sued a Houston nightclub owner because, it alleged, the name of his joint, “The Velvet Elvis”, tarnished the King's reputation. In another right-of-publicity case, EPE whupped the producers of “The Big El Show”, a theatrical revue which not only featured an Elvis impersonator but used promotional slogans such as “A Tribute to Elvis Presley” and sold memorabilia based on the performance.

More recently, EPE threatened legal action against a rival Graceland-style development in Walls, Mississippi, just eight miles down the road from the EPE-owned mansion, for which preliminary planning permission was granted earlier this year. A Georgia-based development company wants to spend around $500m on the 157-acre ranch where Elvis honeymooned with Priscilla. Probable attractions include an “Elvis Dream House”, a 1,000-seat convention centre, a massive memorial to the King in white marble and two golf courses.

Elvis famously sang that you could knock him down, step on his face, slander his name all over the place and do anything that you want to do as long as—uh, uh, honey—you laid off his blue suede shoes. Clearly that is not good enough for EPE. Step on *its* blue suede shoes and it will see *you* in court, honey. Uh, uh.

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About sponsorship

Lexington

Reaching out to Vladimir

May 23rd 2002
From The Economist print edition

Why does Russia matter so much to George Bush?

Get article background

WHEN the cold war ended (which, strangely enough, was a decade ago, not this week), Russia seemed relevant to America only because it had nuclear weapons. As that arsenal was reduced, Russia's importance would surely shrink too. After all, Russia was only as rich as Portugal. Without nukes, that fact would tell. While Russia would plainly matter more than Portugal to America's geostrategists—its regional interests stretch from the Baltic to the Bering Strait, from sea to frozen sea—it would become a second- or even third-order country.

It would be replaced, at least from America's point of view, by rising China and rich Europe. The challenge of China was obvious to all, and remains so. But to some of the camp-followers of the older George Bush, the opportunity for Europe was no less striking. With its shared democratic values, an even larger economy (the single market opened in 1993) and, with luck, a single foreign policy, Europe, led by Germany, could become the most important partner in the New World Order.

To begin with, the younger George Bush seemed to accept parts of that doctrine: his advisers talked about Russia only in nuclear terms. Not any longer. When he signs the three-page Treaty of Moscow at the Kremlin on May 24th, it will be his fifth get-together with Vladimir Putin in less than 12 months. Mr Bush will spend three days in Russia, but less than a day each in Germany and France, whose leaders he will be meeting for the first time on home soil. With Vladimir, Mr Bush has famously looked into the man's soul; by contrast, he has difficulty even looking Gerhard and Jacques in the eye.

With the exception of Tony Blair, whom Mr Bush seems to think of as an honorary American, the Europeans often seem like wallflowers at the Kremlin ball. America's relations with Russia are better than at any time since the end of the second world war and are improving, while transatlantic relations are probably as bad as they have ever been. How did this happen?

One commonly espoused view in the American media—that Russia now loves America more than Europe does—does not make sense. Yes, Mr Bush was greeted in Berlin, the city of John Kennedy's “Ich bin ein Berliner”, by angry demonstrators. But the only reason why they will not turn up in Moscow is because of Mr Putin's more heavy-handed security services. Yes, the elites of Germany, France and every other European country harbour plenty of anti-American sentiments: they have sneered at Mr Bush's “unilateralist overdrive” and fumed at America's backing for Ariel Sharon. But none of them can hold a candle to Russia when it comes to being rude about American foreign policy—or, for that matter, when it comes to anti-Semitism.

Similarly, Mr Bush's warmer feelings for Mr Putin cannot be explained solely by the latter's great shift westwards after September 11th. Mr Putin certainly won points by refusing to kick up a fuss about American bases in Central Asia or Mr Bush's withdrawal from the Anti-Ballistic Missile treaty. But those perfidious Germans and French also rallied round America, invoking for the first time Article 5 of the NATO treaty (on mutual self-defence) and stepping up intelligence co-operation.

Indeed, the difference in warmth has largely been on America's side. The administration made relatively little of NATO's offer of military help in Afghanistan, though it would have been easy to accept; in contrast, Mr Bush happily agreed to Mr Putin's demand to enshrine the nuclear-arms reductions in a

verifiable treaty, casually abandoning his strong preference for a gentleman's agreement by handshake. Which leads to an uncomfortable conclusion: that Mr Bush's people really do think Russia has more to offer America than any other country.

Russia's big attractions

In the world after September 11th, Mr Putin has three reasons to command Mr Bush's attention that Western Europe (often mercifully) cannot match. First and most important is nuclear security. This reflects Russia's weakness. The biggest danger facing the United States is the threat that terrorists will steal weapons-grade plutonium, or radiological material for a dirty bomb. Russia is the most likely source. Of course, the new missile treaty should reduce that threat—but only a little and over ten years. For the foreseeable future, America must rely on the Russians to guard thousands of warheads—and, if Russia cannot guarantee that on its own, America will have to help. In contrast, Mr Bush can take the safety of French nuclear weapons for granted.

Second, Russia is the world's third-largest oil producer and has the world's largest gas reserves. It is the country best able to reduce America's dependence on oil from the Gulf. If (a big if) it can increase oil output at current rates for five years, it might even outstrip Saudi Arabia as an oil exporter. That would increase America's freedom of action in the Middle East (something conservatives in America are whispering about).

Third, Russia is needed in the war against al-Qaeda. Russia has closer ties with all the “axis of evil” countries than Europe, so it is a better conduit for diplomatic pressure. And although the Europeans can be relied upon (more or less) to do what America wants in the war on al-Qaeda, Russia cannot, quite. In Iran, for instance, it is helping to build a nuclear reactor. Left to itself, it might provide Iran (which it regards as a responsible Central Asian power) with nuclear fuel, not too many questions asked. In exchange for closer ties with America, though, it might impose stricter controls on fuel supplies.

This new appreciation of Russia is thus only partly a compliment to Mr Putin. It also reflects Russia's shortcomings and America's frustration with the Europeans. A little opportunism on Mr Bush's part in his dealings with Russia certainly makes sense. But longer term alliances are based on trust—swapping intelligence and so on. Those are things that those neglected Europeans do without bidding, let alone treaties.

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Colombia's presidential election

Staying alive

May 23rd 2002 | BOGOTA
From The Economist print edition

AP

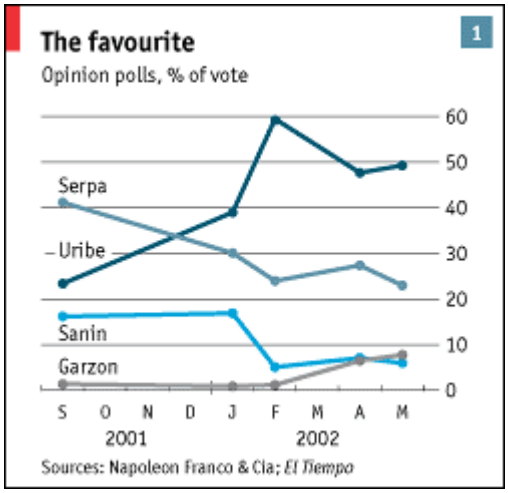
The collapse of peace talks, a failed drug war and a beleaguered economy leave Colombia facing an expensive military build-up

Get article background

WHEN Alvaro Uribe Velez visited a television station in Bogota, Colombia's capital, to broadcast a 30-minute campaign slot one evening last month, the police took no chances. They sealed off the street. A dozen burly men in suits guarded the door, with others posted nearby. Such precautions are not idle. Three days later, when Mr Uribe was campaigning in the Caribbean port of Barranquilla, a bomb wrecked his jeep as it passed a bus. He was unscathed, but four people on the bus were killed and 20 injured.

For Mr Uribe, a dissident Liberal, just staying alive until this Sunday's election has been an achievement. According to the opinion polls, Colombians are poised to choose Mr Uribe as their next president, though he may face a run-off against Horacio Serpa, the official Liberal candidate (see chart 1).

For his supporters, who include much of what remains of Colombia's middle class, Mr Uribe, a 49-year-old lawyer, represents their country's last hope. Over the past decade, Colombia's complex mosaic of political violence has clarified into a brutal and self-sustaining war for territory and plunder. On the one hand stand the Revolutionary Armed Forces of Colombia (FARC), the main guerrilla group, originally Stalinist, and the smaller National Liberation Army (ELN), which was once inspired by the Cuban revolution. Opposing them are the right-wing paramilitary vigilantes of the United Self-Defence Forces of Colombia (AUC), whose origins lie in landlord militias and the private armies of drug barons. All three, but especially the FARC and the AUC, are financed by drugs and extortion, and the ELN and the FARC by kidnapping. This intensifying war is calling into question Colombia's economic viability and democratic stability.



With a campaign promising law, order and authority (“Firm hand, big heart”, goes the slogan), Mr Uribe surged in the polls as many Colombians came to share his criticisms of the peace talks launched by President Andres Pastrana with the FARC. In February Mr Pastrana abandoned these talks, launched amid much optimism three years previously, but aborted by the FARC's kidnappings and terrorist bombings and its failure to negotiate seriously.

The bloodletting is relentless. Last year alone, the armed conflict claimed the lives of about 1,500 combatants, including 306 from the armed forces and 147 from the police. The Defence Ministry says that some 2,000 civilians were also killed, roughly half by the guerrillas and half by the AUC, and around 300,000 were forced to flee their homes. More than 1m Colombians have become refugees in their own country since the mid-1990s, as the rebel forces battle over territory. There are slightly fewer kidnappings than there were, but still more than 3,000 last year, according to Fundacion Pais Libre, an NGO. Many people have fled into exile, taking their capital with them. Miami alone is now home to perhaps 300,000 Colombians.

This is not happening in an obscure banana republic. With 42m people, Colombia is the third most-populous country in Latin America. It is placed strategically at the junction of South and Central America. It is the source of some 80% of the world's cocaine, and a growing percentage of its heroin. This conflict casts a shadow over the whole Andean region.

Plan Colombia's failures

Four years ago, Mr Pastrana inherited a country in decline. The armed forces were suffering embarrassing defeats at guerrilla hands, while the economy, after half a century of rapid economic growth until 1995, was plunging towards an unprecedented recession.

Mr Pastrana tried to turn the tide. To get peace talks with the FARC going, he turned over to the guerrillas a swathe of savannah and mountainous jungle the size of Switzerland (a decision criticised by Mr Uribe). At the same time, he sought to strengthen the government in three ways. He restored Colombia's traditional ties with the United States which had been undermined by allegations that Ernesto Samper, the previous president, had received campaign money from the Cali drug mob. He sought to strengthen the armed forces. And he proposed economic and political reforms.

Much of this programme was summed up in Plan Colombia, an elaborate development plan whose hard core was a big new push against the drug trade. This was backed in 2000 with $1.3 billion in mainly military aid from the United States and further large dollops since. The Americans trained three army battalions and supplied 72 helicopters. The hope was that squeezing its drug income would force the FARC to negotiate seriously.

Mr Pastrana, a personable former television director who speaks flawless English, did a good job selling this plan abroad. But two years on, his plan has failed—or, on the most charitable interpretation, has not yet succeeded.

Take first the attack on drugs. Under Plan Colombia, the spraying of coca fields with weedkiller has been stepped up. But in most cases coca farmers have simply replanted or gone elsewhere. According to the UN Drug Control Programme, which keeps the most reliable watch, coca cultivation fell last year, but only slightly: from 163,289 hectares (630 square miles) in 2000 to 144,807 in November 2001.

The drug warriors have suffered other setbacks. The most vulnerable link in the drug chain involves light aircraft that ferry processed cocaine from laboratories in the Llanos to the coasts. But an American-backed policy of shooting down drug planes was suspended last year, after a missionary's plane was downed by mistake in Peru. A plan to develop economic alternatives to coca in Putumayo (where the UN found 47,120 hectares) has faltered. The United States now plans to re-direct aid money there into new roads and health projects. And the head of the drug police resigned this week after $2m in aid money went missing.

Just wait, say defenders of Plan Colombia. More crop-dusting aircraft are on the way, and the government's target is to spray 150,000 hectares this year, up from 96,000 hectares last year. “This is the year we plan to get on top of it,” says Anne Patterson, the American ambassador in Bogota. “By July the rate of spraying will be greater than the replanting.” But sceptics say that spraying simply drives coca deeper into the jungle. Compared with drug-control programmes in Bolivia and Peru, “there's a total lack of balance between stick and carrot,” says Klaus Nyholm, the UNDCP's man in Bogota.

At first sight, Mr Pastrana appears to have had more success in modernising the armed forces. He has increased the numbers of full-time professional soldiers from 10,000 to 55,000, set up a rapid-reaction force of 5,000, equipped with attack helicopters, and coaxed the three armed services into working better together. When the FARC massed troops to attack army bases, it suffered big losses.

Unequal battle

Yet these achievements have been put into sobering perspective since the end of the peace talks. The FARC has changed strategy, reverting to guerrilla warfare. It has sabotaged infrastructure (blowing up 220 electricity pylons and 32 bridges since February), placed bombs in urban centres and kidnapped prominent politicians (including Ingrid Betancourt, a presidential candidate), all in an apparent effort to undermine civilian morale. It has avoided direct engagement with the army. Mr Pastrana has sent 7,000 troops into the FARC's former enclave, but they have failed to capture or kill any of the top guerrilla leaders. Instead, the FARC has taken the offensive against the AUC paramilitaries.

The FARC has made a particular effort to wrest control of the Atrato river basin, a remote corridor of jungle connecting the Caribbean and the Pacific ocean, which is a vital conduit for the import of arms and the export of cocaine. Last month, a large force of FARC guerrillas fought a pitched battle with hundreds of AUC fighters around the village of Bellavista. During this battle, 117 civilians, including 48 children, were killed when the FARC fired a gas-cylinder bomb at the church where they were sheltering—an attack denounced by human-rights groups as a war crime. The past fortnight has seen intense fighting in this area, with at least 100 dead.

The failure of the armed forces to intervene during the fighting at Bellavista prompted Colombia's ombudsman to talk of the “privatisation” of the conflict. Some Colombians might indeed be content to see the two main illegal forces killing each other. But the troubling message from the fighting is that Mr Pastrana's efforts to strengthen the armed forces have been more than matched by the illegal armies.

During the ceasefire, the FARC used its enclave to recruit, train and resupply. Help from the IRA, a link that army commanders now say goes back five years, gave it new skills in explosives technology, such as the use of remote-controlled bombs of the kind that almost killed Mr Uribe. The FARC is now estimated to have 18,000 fighters (up from 6,500 in 1993), plus another 5,000 in poorly armed urban militias. The ELN has perhaps 4,500.

But the fastest-growing illegal army is the AUC, which has 8,500 fighters and boasts it will have 12,000 by December, up from 4,000 in 1998. The AUC has achieved notoriety by carrying out brutal massacres of civilians, in order to intimidate survivors into backing them or leaving. Of late it has been more discreet in its killing, seeking instead to get political power. There is plenty of evidence that some army officers collude with the AUC, though that is not official policy.

Despite Mr Pastrana's efforts, the army is hopelessly overstretched. Colombia spent just $2 billion, or 2.1% of its GDP, on the armed forces in 2000, though the figure rises to 3.7% of GDP if police and pensions are included. So it is hardly surprising that the government controls only about half of Colombia's vast territory (though that includes the cities, where most people live). Army commanders look enviously at El Salvador's army during that small country's civil war in the 1980s. To maintain a similar ratio of troops to territory, they say, Colombia's army would have to expand 30-fold. And despite American donations, the army's operational budget is tight. Mr Pastrana's modest increases in military spending have gone mainly on wages and pensions, according to Alfredo Rangel, a defence analyst.

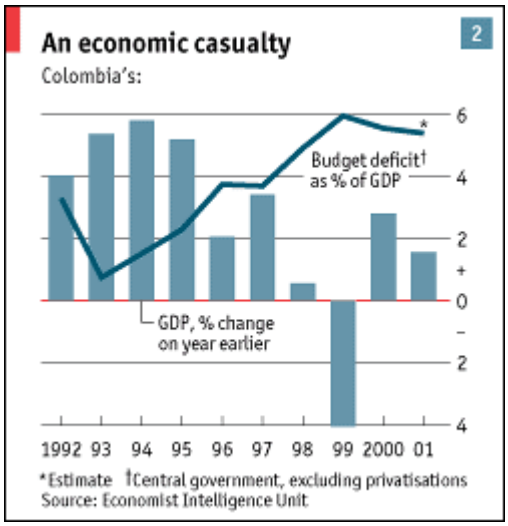
Money is scarce both because Mr Pastrana's government was slow to carry out economic reforms and because the economy has become a casualty of violence. The government deserves some credit: prompt action prevented banking problems from turning into a full-blown financial collapse. And Juan Manuel Santos, the finance minister since 2000, persuaded Congress to increase taxes and rein in transfers to local government. But the public-sector deficit has remained high and debt is rising, partly to finance a still unreformed public-pensions system.

Economic anaemia

The economy has pulled out of recession, but growth is weak (see chart 2). Private investment has edged up, but is equal to only 7% of GDP compared with more than 15% of GDP in 1995. Santiago Montenegro

of ANIF, an economic think-tank, reckons that insecurity is the cause of up to five percentage points of lost investment. Urban unemployment is at 17%. And poverty, after falling until 1995, is rising again: two out of three Colombians are poor, the same figure as in 1988, according to a recent study by the World Bank.

The next government will have to end a vicious circle. To bring security and economic growth to Colombia, it must spend much more on defence. But how can it do that while insecurity continues to sap the economy and government revenues?



Some Americans fear that the answer will be more foreign aid, drawing the United States ever deeper into propping up Colombia. Since September 11th and the end of the peace talks, the Bush administration has changed its policy towards Colombia. It has asked Congress to allow military aid to be used against guerrillas, not just drugs. And it has proposed spending $98m to train and equip an army battalion to protect the country's main oil pipeline. Cynics see that as a favour to Occidental Petroleum, an American firm that uses it. But Mr Santos says that 174 guerrilla sabotage attacks against the pipeline cost Colombia $500m in lost exports and the government $250m in lost revenue last year.

The first soldier

Despite, or perhaps because of, its history of violence, Colombia's mainstream politics has long been rather moderate and consensual, with power shared between two broad-based parties, the Liberals and Conservatives. But this year's election is different. First, Luis Eduardo Garzon, a former golf caddie and trade-union leader, has established a foothold for the peaceful, democratic left. Polls suggest he will push Noemi Sanin, an independent Conservative, into fourth place. That is important, given that past leftist movements in Colombia have often espoused—and been met by—violence. Then there is Mr Uribe.

He has the air of a man of destiny, whose self-appointed mission is to save Colombia. That may be because he has a personal cause: his father was murdered by the FARC. "I will be the first soldier of Colombia," he tells television viewers. In normal times, this law-and-order crusade might be electorally unattractive, for Colombia is an anti-authoritarian and legalistic country as well as a lawless one.

EPA

Seeking the mandate of destiny

Mr Uribe is a member of the country's political establishment. He is a former governor of Antioquia, the economically important and politically conservative department of which Medellin, Colombia's third city, is the capital. He has studied at Harvard and at Oxford universities. As a senator, he pushed through liberal health, pension and labour reforms. His campaign has been endorsed by Mr Pastrana's Conservative Party, as well as sections of the Liberals.

Opponents have accused him of links with, or tolerance of, the AUC, and even of family ties to the drug trade. Mr Uribe denies all these claims, and journalistic and legal investigations have supported his denials. At worst, he is guilty of poor judgment in picking friends, such as General Rito Alejo del Rio, who was accused by a subordinate officer of links with paramilitaries in Antioquia. And some of Mr Uribe's plans are half-baked. For example, although many Colombians want to see their politics reformed, it is

doubtful whether a unicameral legislature, such as Mr Uribe proposes, would work well in a large and fragmented country.

His critics have also accused Mr Uribe of seeking an outright military victory over the FARC. This is widely considered unrealistic. But in fact he talks only of “containment” as being the goal. “If we want to have a viable country, we need to provide our people with security,” he says. This he proposes to do by doubling the numbers of police (from 100,000 to 200,000), and of salaried soldiers (to 100,000).

More controversially, he talks of organising 1m civilians to co-operate with the security forces. This includes requiring private security guards (of whom there are 150,000 in Colombia) to collaborate with the police, and promoting highway security by organising local residents to report guerrilla activities. And would these neighbourhood-watch groups be armed? No, says Francisco Santos, Mr Uribe's vice-presidential candidate. Mr Uribe himself says he would “not prohibit” them from bearing “light arms” which are legal. And he insists that they should take on the AUC and the guerrillas alike.

To his critics, this sounds as though Mr Uribe will give a dangerous official licence to paramilitarism. The candidate's supporters disagree. “The key point is not the size of such a force, or whether or not it's armed. It's control and responsibility,” says Rafael Pardo, a former defence minister and now senator.

Perhaps the biggest problem Mr Uribe would face is high expectations. To be an effective president, he would have to spend an extra 1-2% of GDP on defence, reckons Roberto Steiner, an economist at Bogota's Andes University—and even with a pension reform and other spending cuts, this will require tax increases. Since total tax revenues are equivalent to only 19% of GDP, there would seem to be scope for increases. But this figure excludes both social-security payments and the protection payments that many Colombians feel they are compelled to make to the men of violence just to stay alive.

Such is the scale of the task facing the next government, and such the abundance of the financial resources available to the illegal armies, that outright military victory is unthinkable. The battle ahead is over “where, what and how to negotiate” in the next set of peace talks, says Mr Rangel. It is a battle that will occupy most, and perhaps all, of the next president's term, and one that Colombia cannot afford its government to lose.

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Transport in Mexico

Ending in tiers

May 23rd 2002 | MEXICO CITY
From The Economist print edition

The politics of traffic jams

ONCE, long ago, Mexico city was famous for the beauty of its natural setting, ringed by mountains and volcanoes, and the quality of its colonial architecture. In recent decades, as its population has swollen to 20m, it has become notorious for traffic-jams, pollution and crime.

Yet that view is a little out of date, too. Nowadays, there is less pollution, so on most days the volcanoes are visible, for a few minutes at least. There are more police on the streets. And Mexico city's mayor, Andres Lopez Obrador, even thought that he had come up with a brilliant plan to ease traffic congestion. This involved erecting a second tier on top of long stretches of the two main inner-city "expressways", where traffic now moves at an average speed of about 16kms (ten miles) an hour.

When last week, after a year of public debate, his plan was scrapped (officially, "postponed indefinitely"), many residents suspected that this was more of a tragedy for the mayor than for their city. Mr Lopez is from the left-wing Party of the Democratic Revolution (PRD). He has presidential ambitions. In line with the old, top-down, Mexican politics, Mr Lopez seemed to assume that a grateful citizenry would embrace his scheme without further ado. In the new, more democratic, Mexico, things rarely work like that any more.

Instead, Mr Lopez's plan provoked a plethora of angry opponents. Greens pointed out that the mayor had failed to commission an environmental-impact report. Neighbourhood groups objected to the idea of cars grinding past their bedroom windows. And as any taxi-driver knows, the second tier would have merely increased congestion on the access roads.

Others argued that the scheme owed more to Mr Lopez's political needs than to those of the city. He has won support from the city's poor with populist policies such as extra pensions for the elderly. But the poor use buses or the (very cheap) metro. It is mainly the better-off who drive cars. The tiered motorways were a way of courting middle-class votes while leaving Mr Lopez's permanent mark on the city in time for the presidential election of 2006.

Mr Lopez might just have been able to overcome the protests had he had enough money for the project, says Federico Estevez, a political scientist at ITAM, a Mexico city university. But once engineers looked into how they could ensure safety on soft soils and in an earthquake-prone area, the project's likely cost began to mount. That is what finally forced its cancellation.

Mr Lopez will survive, though his presidential plans may have been dented. Meanwhile the traffic remains snarled. More public transport is part of the answer. But, again, politics plays its part. Mr Lopez governs only the city's inner core; much of its suburban periphery is the responsibility of the surrounding state of Mexico. And the state's governor, Arturo Montiel, who is from the Institutional Revolutionary Party (PRI), the main opposition, has presidential ambitions of his own. He is unlikely to help Mr Lopez by co-operating with such useful projects as a light railway between city and suburbs. After seven decades of rule by the PRI, Mexico is discovering the pitfalls, as well as the pleasures, of pluralism.

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Argentina's collapse

Praying for a result

May 23rd 2002 | BUENOS AIRES
From The Economist print edition

Win the World Cup or win over the IMF—which will be harder?

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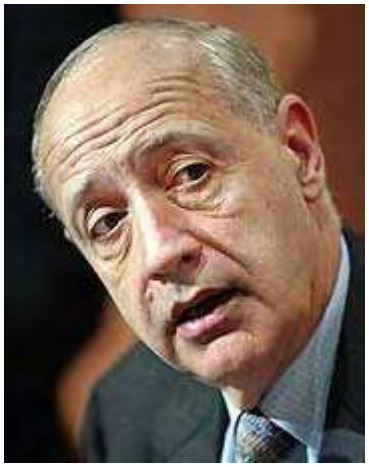

Can Lavagna avoid the offside trap?

TRAPPED in a shrinking economy, Argentines are becoming restive again. On May 22nd, unions held their first strike against Eduardo Duhalde, who was installed as president in January after riots felled his predecessor. Mr Duhalde's survival depends on the public mood not becoming much nastier: thus it may turn as much on whether Argentina does well in the forthcoming football World Cup as on whether he can reach a deal with the IMF.

Footballing success may come easier. The IMF has agreed to roll over a $130m payment due this week, and the Inter-American Development Bank has revamped loans to Argentina totalling $690m. And Roberto Lavagna, the new economy minister, said after talks this week with the Fund that a deal could be reached by late June.

But Congress has met only one of the IMF's main conditions for negotiations—a reform of the bankruptcy law. It is jibbing at reforming a bank-bashing law. The most important condition is that all Argentina's provinces pledge to cut their deficits by 60% and stop issuing their own quasi-currencies. That would have dire social consequences, say some provinces. Mr Lavagna said the IMF might be flexible on this. But will the provinces play ball? Mr Duhalde has infuriated some of their governors: he had promised to let them hand out emergency welfare payments to poor families. Instead, he has distributed some himself, to congressmen and unemployed protesters.

Then there are the banks. The peso sagged this week, as Mr Lavagna and Mario Blejer, the central bank's governor, argued about how to save the banking system. Congress last month rejected a plan to swap frozen savings accounts for bonds. No clear alternative plan has emerged. But at least Mr Blejer, a former IMF official, was said to have withdrawn a threat to resign.

The government wants the banks' owners to contribute to a rescue. But some smaller foreign banks are heading for the door. Last month, Canada's Scotiabank stopped supporting its local subsidiary. This week, France's Credit Agricole walked away from its Argentine operations. And Italy's IntesaBci publicly contradicted central-bank officials, who claimed it had promised to recapitalise its local offshoot. Mr Duhalde had better start praying for some Argentine goals.

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Japan

Koizumi's shrivelling agenda

May 23rd 2002 | TOKYO
From The Economist print edition

The prime minister has a month or so to pass some face-saving bills

AP

Get article background

THE economy may have found its bottom, but support for Junichiro Koizumi continues to slide. The prime minister's approval ratings dropped to 38% this week, and the next few months hold out little prospect of a rebound. Mr Koizumi has already conceded that he may soon have to shuffle his year-old cabinet, thus breaking one of his most visible pledges and dealing his public standing another blow. Before that happens, he hopes to salvage something from this year's session of parliament, which is due to end in late June.

Though his agenda in the Diet hardly measures up to his early promises, it at least contains a few items that Mr Koizumi can wave around as evidence of progress. The bills fall into four categories: changes to the health-insurance scheme, a bill on privacy and the media, a package of bills defining the role of security forces, and measures to move the postal services closer to privatisation.

The outlook for the first two items seems largely to be settled, with the two bills headed for opposite fates. The privacy bill looks nearly dead. It began as a proposal to protect the privacy of people's records, but ruling-party lawmakers expanded it to affect media reporting, prompting a public backlash. The health-insurance bill, by contrast, seems likely to pass uneventfully. The bill would shave the government's burden by raising the portion of costs that salaried workers must pay out-of-pocket, from 20% to 30%. Mr Koizumi fought the powerful doctors' lobby to get his party's approval, and the bill's passage in the Diet would mark one of his clearest victories to date.

At the moment, most of the political manoeuvring concerns the other two items on Mr Koizumi's agenda. The security bills aim to clarify the ground rules for responding to an attack on Japan, including in situations when an attack is thought to be imminent but has not actually occurred. Their provisions, which would let the cabinet make faster decisions and make it easier for the army to shoot back, are fairly tame. They seem radical by Japanese standards, however, and would mark the first laws of this kind since Japan adopted a pacifist constitution after the second world war. One of Mr Koizumi's main coalition partners, New Komeito, is cool on the idea, and some MPs in his own Liberal Democratic Party have also resisted it.

Many LDP lawmakers are also keen to thwart privatisation of postal services, since postal workers have been hard-core party supporters. Two of Mr Koizumi's postal bills—to set up an arm's-length public corporation next year—should pass easily. But party members, led by Hiromu Nonaka, a leading figure in the LDP's biggest faction, are resisting further changes. They have been scuffling with Mr Koizumi over how much to increase the scope for private mail delivery, and hate his insistence that he will eventually privatise the postal-savings and life-insurance schemes.

The problem for Mr Koizumi's LDP opponents, however, is that they dare not leave him empty handed. He has already threatened to extend the Diet session until August, if need be, so he can pass the security and postal bills. Such a special extension carries risks, since a failure at that point could back Mr Koizumi into too tight a corner. “The LDP could be wiped out if they call elections right now,” says Shigenori Okazaki, a political analyst at UBS Warburg, “but Koizumi might just do it because he is such an unpredictable person.”

To avoid the risk, however slim, of such an “accidental election”, Mr Koizumi and his party seem to have settled on a rough compromise. They will extend the Diet session by a week or so beyond June 19th, the scheduled closing date. The security bills should pass without much more fuss, and Mr Koizumi will get some form of bill freeing up mail delivery, while continuing to promise real postal privatisation later on. At that point he will head off to a G8 summit in Canada in late June, with little to show for his first 14 months in office.

The security bills, to be fair, would mark an important step for Japan, following on its willingness to send ships to the Indian Ocean during America's military campaign in Afghanistan. In pressing health-insurance reform, Mr Koizumi has also shown a rare willingness to take on an important LDP constituency in earnest. When this Diet session is over, however, he will have yet to achieve any of the structural economic reforms that once formed the core of his agenda. Along with postal services, the rest of Mr Koizumi's privatisation goals remain distant future wishes. He has achieved few of the administrative reforms through which he once hoped to increase his government's clout. And he has done nothing to shrink Japan's pile of bad loans—the biggest barrier to a lasting economic recovery.

This performance is as frustrating to Japan's economic partners as it is to most of its voters. So rather than show up empty handed, Mr Koizumi will head to the G8 summit with a blueprint for tax reform unveiled on May 21st, though not yet approved by the party, to add to his continued assurances that he has the economy in hand. If he is lucky, the prime minister will not draw too much attention at the summit. Then he can go home, shuffle his cabinet, and continue his downward slide.

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Vietnam

A trickle of democracy

May 23rd 2002 | HANOI
From The Economist print edition

Even that may be too fast

A FEW days before Vietnam's parliamentary elections this week, Nong Duc Manh, the Communist Party chief, complained to reporters about the small and sporadic protests outside his office. The fact that people gather with placards is abnormal, he said. “Our democracy is in many cases excessive.”

Not a cliff-hanger

Such a comment is, of course, good evidence of the opposite: that democracy has not gone nearly far enough in Vietnam. The Communist Party remains the only legal political organisation in the country. Although there were some independent candidates among the 700 who competed for 500 seats in the parliamentary elections, a government body called the Fatherland Front vetted them all to weed out any genuine critics.

The single-chamber National Assembly will spend most of its time rubber-stamping the diktats of senior officials. The vote took place on May 19th (which happens to be the birthday of Ho Chi Minh, the founder of Communist Vietnam, making it an auspicious day for an election), but the authorities say it will take at least a week to compile the results, an indicator of the elections' utter lack of urgency or suspense.

But even if the Communist Party is not about to surrender power, it does seem keen to improve its act. Over the past few years, it has introduced a series of measures to make parliament more prominent and pertinent, if not exactly democratic. A quarter of its new members will work full-time, rather than wafting through Hanoi for two month-long sessions each year. Almost all who stood for election this week have university degrees. A few businessmen, who would once have been spurned as capitalist exploiters, made it past the Fatherland Front. A senior official suspected of corruption was barred from running at the last minute.

The National Assembly now regularly summons government ministers for questioning, and the proceedings are televised. Votes are no longer always unanimous: the outgoing speaker squeaked into the post with a humiliating 60% of the vote, despite being endorsed by the party leadership. The uppity members refused to endorse plans for a dam that would displace thousands of villagers, ignoring a government directive.

Fun as it is to watch ministers get a roasting, plans to reform local government are likely to have much more bearing on the lives of ordinary Vietnamese. The government recently began promoting an existing, but unimplemented, decree that obliges local assemblies to consult residents about administrative decisions. In the village of Phu Long, for example, a committee of fishermen and police now manages the local fisheries. In the past, villagers say, distant officials would simply have issued arbitrary regulations. A few months ago, a mussel-farmer recounts with evident awe, officials even asked the villagers where they should build a new electricity pylon and followed their advice.

There are many such initiatives in the pipeline. The prime minister has called for the setting up of telephone hotlines to take complaints about inefficient or corrupt civil servants. The party has made the overhaul of district councils (another layer of Vietnam's multi-tiered bureaucracy) a priority for 2003. Soon, the government plans to start shunting civil servants from province to province, to prevent them from building personal fiefs.

There is one glaring flaw with all these schemes: getting them implemented. The government and the

party have adopted all manner of self-flagellating resolutions, bemoaning their own inefficiency and corruption and promising change, but with little effect. Although top officials are constantly calling for more local democracy, only villages where a foreign NGO is involved, such as Phu Long, seem to have seen any improvement. The same leaden bureaucracy that spurred calls for reform in Vietnam in the first place is now supposed to act on them, with predictable results. The protests outside Mr Manh's office seem unlikely to die down just yet.

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Afghanistan

Hunting the mullah

May 23rd 2002 | DEH RAWUD
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The search for Taliban leaders goes on

DEH RAWUD, a small town in a remote corner of Oruzgan province in southern Afghanistan, is far from the main action of America's war against the remaining al-Qaeda and Taliban fighters, which for the past four months has been concentrated on the eastern areas bordering Pakistan. But a less publicised hunt is being conducted there for some of the top leaders of the Taliban movement, who remain at large and are reportedly hiding in the stony mountains of the province, from which many of them hail.

The reclusive Taliban leader Mullah Muhammad Omar was raised in the area by his uncle, the local mullah in a village just outside Deh Rawud. He went to a local *madrassa*, or religious school, and became friends with another local boy, who was to become one of his top commanders, Mullah Bradar.

American special forces have raided Mullah Bradar's house and village twice in the past three months, killing one person and arresting three in March, and arresting four more people in the second raid a month ago. Mullah Bradar has not been home since December, when he spent three nights there after the Taliban ceded control of the southern city of Kandahar to the anti-Taliban forces, according to one of his neighbours, whose house was badly damaged by the American forces.

The dead man was a farmer, according to his brothers, both of whom were arrested and learnt of his death only after their release. They were given money in compensation for their brother's death, and for their own arrest, which they have taken as an admission by the Americans of their mistake.

The second time, the Americans arrested a 90-year-old nomad, along with others, who was staying in the village to sell his sheep. He has yet to return home. “We did not give shelter to the Taliban and we will not in future. This is proof, that the Americans have come here twice and found nothing,” says one villager.

On May 12th American special forces tried again, raiding Char Chine, a village some 25 miles (40 km) north of Deh Rawud at night with dozens of helicopters, troops and dogs. Char Chine is the home village of the former Taliban chief of staff, Mullah Fazel, now reportedly among the inmates at Guantanamo Bay prison camp, and of the most notoriously brutal commander of all, Mullah Dadullah, who is on the run after escaping capture during the surrender of Kunduz last November.

The target of the raid was the large walled compound that is the home of a Muslim cleric, Sayed Abdul Rahman Aga, who keeps open house for passing travellers, traders and itinerant workers who need somewhere to sleep. The Americans said it was a suspected sanctuary for senior Taliban and al-Qaeda figures. Their special forces rounded up many of his guests and villagers from the surrounding houses. They shot five villagers dead, two of them teenagers, and seriously injured a farm hand. But it seems that they failed to net any senior Taliban.

Mullah Omar, meanwhile, is thought to be in the even more remote mountains west of Char Chine, just over the boundary in Helmand province, according to an anti-Taliban commander, General Amanullah. “There the mountains are thickly forested and the valleys so narrow you cannot see into them,” he said. “We are saying to the Americans they must continue these actions, but it is going to be very difficult to catch them.”

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China's civil service

The strategy behind a pay rise

May 23rd 2002 | BEIJING
From The Economist print edition

Will it discourage corruption?

MILLIONS of Chinese bureaucrats are to get a pay rise in July, the third in three years. The government hopes that its vast army of civil servants will not only plough a bit of extra cash back into the economy, but that the increase will encourage them to be honest. It also reckons that higher salaries will attract more qualified people. How much they will get has not yet been revealed. In previous years officials ended up on average with an extra 80 to 100 yuan ($9.60 to $12) per month. Not a fortune by western standards, but a useful sum in China; and a big addition to government costs. However, the finance minister, Xiang Huaicheng, said on May 12th that it will not endanger the budget.

The effect of the pay rise on the economy has sparked a lively debate among Chinese academics. Optimists note that China's consumer-goods market accounted for more than half of the 7.6% growth in GDP that China recorded in the first quarter of this year. Even a modest increase, when multiplied by the 5.4m civil servants who are due to receive it, will add up to a lot more spending on travel, telecoms, clothes and other desirable things.

Others disagree. A Beijing-based economist, Peng Dingding, reckons that the economy would be better stimulated if the extra money went to China's poorest, rather than to its relatively well-off bureaucrats. As for discouraging bribery, he notes that the increases are “nothing compared to what officials can put in their pockets through corruption. Why should this stop them?”

Mr Peng may have a point. But so has the government. Clearly, the pay for civil servants cannot be left where it is. Even after the new round of increases, typical salaries will still be in the paltry range of 1,200 yuan per month. Even with housing, medical coverage and other benefits that go with a government job, such employment will fail to lure candidates who are well enough qualified to work for the much higher salaries on offer at private companies. But nor can civil servants' pay be boosted quickly to the levels found in Singapore's civil service, which pays on a scale competitive with the private sector—and which is seen by many in China as a model to strive for.

As so often in China, the sheer number of people involved makes any rapid hike impractical. So it has to advance step by step. In another move, some bureaucrats are studying for advanced degrees in public administration. Open recruitment exams, merit appraisals and performance checks are being experimented with in a service previously unused to modern ideas.

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Angola's wondrous peace

The war is over, the rebels come home

May 23rd 2002 | LUANDA
From The Economist print edition

Anna Richardson

After 40 years of on-off murderous civil war, Angola is truly at peace. But starvation, and corrupt politicians, could still wreck it

Get article background

IN THE piano bar of the Tropico, Luanda's plushest hotel, some odd new guests are congregating. Unlike the well-fed regulars, they are so thin that their belts are threaded twice around their middles. They are the surviving leaders of UNITA, Angola's defeated rebel movement, who have turned a cluster of brocade sofas into their new headquarters. After decades of living, fighting and finally starving in the bush, they are now talking peace. To general astonishment, the talks are going well.

As a gesture of goodwill, the Angolan government is putting its former enemies up in the Tropico, where the sumptuous breakfast buffet is gradually helping them to fill out their floppy new suits. Meanwhile, out in the bush, UNITA's emaciated footsoldiers are receiving helicopter-loads of rations, courtesy of the Angolan army. Instead of gnawing on cassava roots and wild honey, the unkempt rebels are now sampling the delights of rice, corned beef, and tinned crème caramel.

Three months ago, Angolan soldiers shot and killed UNITA's founder, Jonas Savimbi. Since then, startling changes have occurred. The civil war, which has flared on and off since 1961, has stopped. Angolans feared that the men with guns would carry on pillaging, but they have not. Angola's roads, long impassable because of the constant threat of ambush, have re-opened. Truckloads of beans and peppers are moving from the countryside to the big coastal cities, and clothes, fish and electrical goods are moving the other way. Prices in some towns have halved. Families split for decades by the war are hopping on rusty minibuses and reuniting. Now that there is somewhere to drive, car theft has increased in Luanda. Absent for two generations, hope has returned to Angola.

Cynics reserve judgment. Angola, they note, has seen two UN-sponsored “peace processes” collapse in the past ten years. But this time may be different. For one thing, Mr Savimbi is no longer around to spoil things. For another, the two sides are talking face to face, without UN mediation, which leaves less scope for misunderstanding. More important still, the peace has been negotiated, and is being implemented, by soldiers, not politicians: several of the latter pocketed huge “commissions” on arms to blast the rebels, and so had an interest in postponing peace.

Deep in the forest

The men who did the actual fighting have now taken matters into their own hands. The initial ceasefire was agreed by two rival generals deep in the forest in March. Since then, negotiations have taken place at a military base in the sleepy town of Luena, 700km (435 miles) from the capital. Diamantino, a humble infantryman, captures the mood: “If the politicians want more war, they can go to the bush themselves, because we are never going back.”

Previous negotiations failed because neither side was exhausted. UNITA re-armed during ceasefires; the government seized the chance to catch rebels off-guard and kill them. This time, the government has clearly won, but its generals tactfully avoid the word “victory”. Instead, they assert suavely that all Angolans are brothers, all have suffered from the war, and all are now winners thanks to the peace. These old enemies meet without apparent rancour; reconciliation seems possible.

Will peace, if it holds, lead to prosperity? Not for a long time, sadly. Rural Angola, which was largely controlled by UNITA for most of the past 30 years, is in a woeful state. Just how bad has become clearer since the fighting stopped and aid workers have been able to penetrate previously no-go areas. Their findings are grim.

An estimated 500,000 people are on the brink of starvation. Many people in UNITA areas, after fighting or slaving for the rebels all of their lives, were forced to flee their homes during the government's final offensive. Constantly on the run, they could neither grow food nor find medicine, clothes or shelter. In some areas, a third of the population are suffering from chronic malnutrition. Mortality rates, at six per 10,000 per day, are six times the level aid workers define as an emergency.

The fate of UNITA's skeletal soldiers and camp-followers has been the main focus of the peace negotiations. The army has set up 34 “quartering areas” for them, where they are supposed to be disarmed, fed, given medical treatment and then trained in skills that will ease their integration into society. The last two times this was tried, UNITA dragged its feet, and cheated by sending civilians with broken guns to be disarmed instead of real soldiers. Not this time. In just five weeks, around 80% of rebel troops—over 40,000 men plus their families—have converged on the camps. For many, this meant marching for hundreds of kilometres.

Worryingly, the whole process could come unstuck for lack of supplies in the camps. Sixty inmates have already starved to death. If conditions do not improve, UNITA's leaders say their men will be forced to desert the camps and revert to armed banditry to survive. Foreign donors are ready to send help, as the Angolan army has repeatedly requested. But the donors cannot intervene without permission from the Angolan government, and this permission has been denied.

Why? In the absence of war, senior political figures are now trying to cash in on the peace. The same men who used to grow fat on weapons contracts have now taken charge of ordering tents, medical kits and rations for demobilised rebels. If the UN took over, this avenue for profiteering would be closed. Meanwhile, UNITA starves, the army edges closer to mutiny, and Angola's best hope for peace in two generations hangs in the balance.

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Lesotho's election

How to avoid Big Brother's help

May 23rd 2002 | MASERU
From The Economist print edition

Four years after riots, and foreign military intervention, another vote

A BLANKET of snow fell on Lesotho earlier this month, welcome news for the tiny mountain kingdom's newly opened ski resort. Bad weather may keep some of its more remote villagers from the polls on May 25th, but an honest, well-attended election is expected. What happens next is less clear.

At the last election, in May 1998, voting was generally accepted as fair, but the result was not. A contorted first-past-the-post constituency system let the ruling Lesotho Congress for Democracy sweep 79 of 80 seats with little more than 60% of votes. After several uncomfortable months, which saw rioting and an army and police mutiny, Pakalitha Mosisili, the prime minister, asked for military help from South Africa, which surrounds the kingdom, and Botswana.

This military intervention went terribly wrong. Some 70 people were killed, and there was extensive looting and burning in Maseru, the capital. Political order was restored only when the government promised to redesign the electoral system. Now, in addition to the 80 first-past-the-post assembly seats, 40 members will be elected on a separate party-list system. Mr Mosisili's LCD will probably still win, but other parties will be more fairly represented. Parliamentary salaries and perks may reconcile opposition leaders to the pain of losing. “It's more a job fair than an election,” remarked an observer.

Mr Mosisili's chances are helped by his recent toughness on corruption. This week, the former boss of a huge dam project was convicted of taking bribes from foreign contractors. Meanwhile, greater political stability and duty-free access to the American market, under the African Growth and Opportunity Act of 2000, has tempted several Asian textile-exporting companies to come to Lesotho.

Last year, the country sold $215m-worth of goods to America: a figure that has doubled in two years. People seem confident that “a mixed parliament” will save them from a repetition of 1998's riots. No less important, the army and police have been retrained, and are unlikely to meddle in politics again.

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Iran and its neighbours

Ever more perilous isolation

May 23rd 2002 | TEHRAN
From The Economist print edition

America's and Russia's new friendship could leave Iran stranded

WHEN they met last weekend in Tehran, Iran's President Muhammad Khatami and Azerbaijan's President Heidar Aliev implied that they had got over their contretemps of last summer, when they nearly came to blows over the Caspian Sea. They agreed that their relationship should be closer: both countries are Shia Muslim, with ethnic and cultural affinities. But there was a tetchy undercurrent. The two are embarked on sharply different directions in foreign policy, all the while looking over their shoulders, at America and Russia.

Locked into anti-Americanism by ideology and sanctions, Iran's clerical regime favours an alliance with Russia as a means of securing arms, nuclear know-how and diplomatic clout. Until recently, Iran and Russia were at one in trying to prevent America from dominating the distribution of Caspian oil and gas; they had similar ideas, too, on how to divide the Caspian between the five littoral states. But Azerbaijan, having escaped the Soviet embrace, has allied itself to America, and its oil companies. It was always an unequal tussle, weighted on the side of the Americans and Azeris. Now, Russia may be switching sides, or, at least, leaving Iran's.

During last month's summit of littoral states, Russia's president, Vladimir Putin, joined Azerbaijan, Turkmenistan and Kazakhstan in demanding that Iran accept a much smaller slice of seabed than it claims. The day after the conference ended—in failure, having been unable even to sort out the principle that will govern division—Mr Putin abandoned an earlier understanding, worked out with Iran, that neither country would recognise bilateral agreements between littoral states.

A few weeks later, Mr Putin signed just such an accord, with his Kazakh counterpart, to determine who owns what in the northern Caspian. Mr Aliev hopes to cut similar deals this summer, with both Russia and Kazakhstan. Iran, though it continues to insist publicly on a grand agreement or nothing, may reluctantly join in. A bilateral deal with Azerbaijan, Mr Khatami hinted last weekend, may soon end the dispute that nearly led to war.

Russia's new friendship with the United States is increasing Iran's isolation in other ways. The Americans have vetoed the Iranian proposal, favoured by oil companies for reasons of economy, that the main export pipeline for Caspian oil should run across Iran to the Gulf. American diplomatic and commercial pressure will probably ensure that a more costly pipeline, through Georgia and Turkey to the Mediterranean, gets built. Russia's opposition to this route has already softened.

Cracks are also showing in the “strategic partnership” that officials from Iran and Russia proclaimed when Mr Khatami visited Moscow last year. At that time, Russia was happy ostentatiously to resist American and Israeli pressure to stop building a nuclear reactor in Iran (a reactor that Iran's enemies regard as a cover for the transfer of non-civilian nuclear technology). Russia also agreed to sell arms to Iran worth at least $2 billion.

Few of these arms have been delivered. America's sharp objections, which will be repeated in the talks between George Bush and Mr Putin in Moscow this week, have had their effect, along with Iran's own chaotic finances. Work on the reactor is taking longer than expected, amid Russian complaints, *sotto*

voce, that Iran is a bad payer. Iran, its frustrated strategists observe, is one of the least militarised countries in its neighbourhood. Its enemies, however, pile on the propaganda.

The Iranians are uncomfortably placed. The country coexists uneasily with America's Arab friends to the south. It frets at reports that America is setting up a base in Afghanistan, near its eastern border. To the west, if Saddam Hussein were to fall, a new Iraqi regime might be in America's pocket. To the north, only Russia seemed prepared to defy America over control of the Caspian, and that is no longer certain.

Worried Iranians have suggested that their government should look harder for friends. But this is easier said than done. China's president recently rejected the sort of strategic alliance Iran wanted. Even the European Union, which shares Mr Khatami's own frustration at the failure to make Iran a more liberal place, has delayed a trade and co-operation agreement. And recent attempts to set up contacts with the United States ended in fiasco, as Iran's fractured political establishment could not agree how, or by whom, these contacts should be conducted.

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Iraqi Kurdistan

Thinking federal thoughts

May 23rd 2002 | ARBIL
From The Economist print edition

Kurdish conditions for helping America to change Iraq's regime

FROM his compound overlooking Arbil, Massoud Barzani, leader of the stronger of the two Kurdish factions running northern Iraq, feels the weight of an approaching, and crucial, decision. He and his arch-rival, Jalal Talabani, who controls the eastern part of the Kurdish enclave, had just returned from meeting American officials in Germany to discuss the Kurds' possible contribution to an Iraqi "regime-changing" operation. Mr Barzani is determined not to take his people into anything "that fails to guarantee their security and their rights as equal citizens in a federal, democratic Iraq."

With some 50,000 men under arms and controlling an area roughly the size of Switzerland, the Iraqi Kurds are the strongest opposition group inside Iraq. But, unlike the Northern Alliance in Afghanistan, they lack sophisticated weaponry and they are encircled by unremittingly hostile neighbours. With Iraqi tanks parked just ten kilometres outside Arbil, it is easy to understand why Mr Barzani and many of Iraq's 3.6m Kurds are jittery.

They remember what happened when George Bush senior exhorted them to rebel against Saddam Hussein at the end of the Gulf war and then failed to support them. They have far more to lose today. Protected by American and British air power, and to the consternation of Turkey and Iran (both of which have bigger Kurdish minorities than Iraq), the Iraqi Kurds are in the process of building a modern country.

From various sources of income, including a share of Iraq's oil-for-food deal and revenue from Iraq's illicit border trade with Turkey, dirt roads have been transformed into silky highways, hundreds of schools and hospitals have been renovated, and others have been built from scratch. Iran, Turkey and Syria keep physical access to the enclave under strict control, but the Internet and satellite communications are helping the Kurds to overcome their forced isolation.

"We are experiencing a Kurdish renaissance," boasts Saeed Barzinji, a French-trained law professor who runs Salahaddin University in Arbil. But Barham Saleh, a senior official working for Mr Talabani, knows that "We cannot envisage a free Kurdistan...it is our fate to live within the borders of Iraq. Unless we have a democratic government in Baghdad, our hard-earned gains will be destroyed."

As speculation about American intervention grows, Kurds living in America and Europe, who have helped spearhead the region's construction boom, are shying away from further investment. And aid agencies give warning that beneath the veneer of budding prosperity, the Kurdish economy remains very fragile, largely dependent on UN handouts. Military action of any kind could result in a humanitarian crisis for which no one is prepared.

Kurdish leaders seem to be convinced that sooner or later the Bush administration will remove the Hussein regime, and that they themselves will go along with the plans. But apart from the renovation of a few old Iraqi military airfields, there are no signs of any preparation. The Kurds are more interested in extracting a high price from America, including support for a future federal arrangement as the condition for any help they might give.

Turkey sees things differently

American officials have held off from making any such pledge. They have two reasons. First, the Iraqi Kurds will have to work out their future status with their fellow Iraqis. Second, Turkey, America's good ally, has given warning that any hint of Kurdish independence in northern Iraq would be met with a

military response.

Over the past decade, America has looked the other way as Turkish troops made regular forays into the Kurdish enclave in pursuit of Turkey's Kurdish rebels from the now supposedly defunct Kurdistan Workers' Party. Some 250 Turkish military men are permanently stationed in the enclave, partly in order to arm and train a Turcomen militia based in Mr Barzani's area. The presence of Turcomens—there are anything between 800,000 and 2m in Iraq—serves as a pretext for Turkey's intervention to “protect” its Turkic cousins.

Relations between the Turks and Mr Barzani have sharply deteriorated in recent months, mainly over the latter's refusal to continue to collaborate in military operations. Turkey has hit back by more or less halting the illegal import of Iraqi diesel through Kurdish-controlled areas since February, a move that has had a severe impact on the local economy. In addition, Turkey has been providing modest aid to Mr Talabani in a bid to dilute Mr Barzani's strength. This, in turn, has prompted Iran, another difficult neighbour, to indulge in its own trouble-making by allowing a murderous Islamic group, Ansar al-Islam, to operate in the impenetrable mountain terrain near the Iranian border.

The encouraging news is that the rival Kurdish factions appear to be resisting attempts by external powers to pitch them back into fratricidal fighting. This came to an end in 1996, after Mr Barzani invited Mr Hussein's troops to drive out Mr Talabani's forces from Arbil. While they were at it, the Iraqis also killed hundreds of Iraqi Arabs linked to a CIA-backed opposition group. While there is little likelihood of the Kurdish leaders returning to the power-sharing agreement sealed by their first and only parliamentary election in 1992, co-operation between them is growing.

They are speaking to the Americans largely with one voice. “We Kurds have never been this strong,” said Hoshyar Zebari, an aide to Mr Barzani. “It is time to stop being pawns in other people's games, to stand united and think big.”

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Europe and the United States

Chilly in the west, warmer in the east

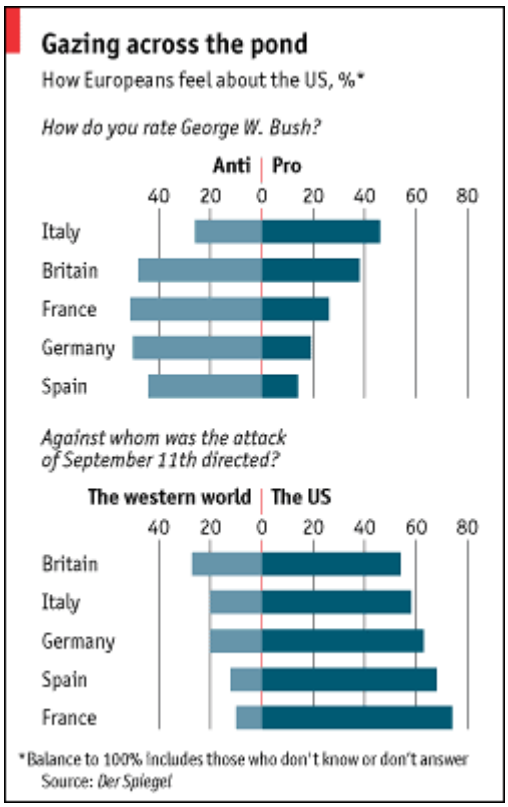
May 23rd 2002 | PARIS AND BERLIN
From The Economist print edition

AP

Europe is lukewarm towards George Bush, but why should he care?

"BUSH Go Home—Warmongers Not Wanted": hardly a pleasant welcome for America's president on his first trip to Europe since launching the "war on terror". But street demonstrations against a visiting American president are neither new nor unexpected. The difference for George Bush, on his week-long swing from Germany to Russia and then back via France and Italy, is that governments and voters, not just the usual street activists, seem unusually perturbed right now about relations with America.

Europe's politicians did not like Mr Bush's invention in January of an "axis of evil" consisting of Iran, Iraq and North Korea. They think he is doing too little to end a war in Palestine and too much to resume one against Saddam Hussein in Iraq. Such is the sourness across the Atlantic that Tony Blair felt it necessary as Mr Bush left Washington to bemoan Europe's "jealousy" of America's pre-eminence. Britain's prime minister said one of his own tasks was "to say to people the whole time: don't pull apart Europe and America because the only people that rejoice in those circumstances are the bad guys."



Are relations really that bad? Europeans generally get on better with Democrats than Republicans. Mr Bush does not seem as clever as Bill Clinton; his folksy manners come over as simple-minded. He goes his own way, in a direction Europeans seldom like: he has withdrawn from the Kyoto treaty on global warming, scrapped the anti-ballistic missile (ABM) treaty so that he can develop missile defences, shunned the new International Criminal Court and taken protectionist measures to safeguard America's steel-producers for the sake of campaign money and votes.

To many Europeans, all this smacks of arrogance, at a time when Europe is worrying about its own relevance in the world. What, they ask, was the point of rallying to America after September 11th, and invoking article 5 of the NATO treaty (an attack on one member state is an attack on all), if the Americans were then going to wage war in Afghanistan more or less alone?

It does not help that the Europeans know the answer to their own question. Successive wars have shown up a vast gap between the military capabilities of America and Europe, turning America into what France's former foreign minister, Hubert Védrine, calls a “hyperpower”. It listens politely to old allies in Europe but is focused now on new threats, which it is willing to confront alone. The Americans are expected to listen to European doubts about the wisdom of toppling Saddam—and then ignore them.

For all these reasons Europeans have cause to feel a trifle more jealous of America than usual. But the disgruntlement is by no means uniform. Its spiritual home is in France, which has always tended to see America as a competing preacher of universal ideals and now strives to promote the European Union as a counterweight to American dominance. This week, *Le Monde*, noting that Europeans see Americans as “arrogant, bellicose and deaf to all criticism”, decried a new period of American “messianism”.

British anti-Americanism is a milder affair, though Mr Blair's claim that he exercises a restraining influence on Mr Bush is seen by many in his own party as a self-flattering illusion. In Germany, Chancellor Gerhard Schröder has stressed Germany's “unlimited solidarity” with America after September 11th. But according to opinion polls, fewer than one in five Germans see the American president in a good light. The German mood may have been captured better by the foreign minister, Joschka Fischer. After Mr Bush's axis of evil speech, he complained that “for all the differences in size and weight, alliance partnerships between free democracies cannot be reduced to obedience. Alliance partners aren't satellites.”

Waning Teutonic love

How Germans feel about the US, %

	2002	1993
How do you rate the relationship between the US and Germany?		
US plays the dominant role	73	53
Now we're equal partners	26	46
Is America a guarantor of peace and security in the world?		
Yes	42	53
No	54	46

Source: *Der Spiegel*

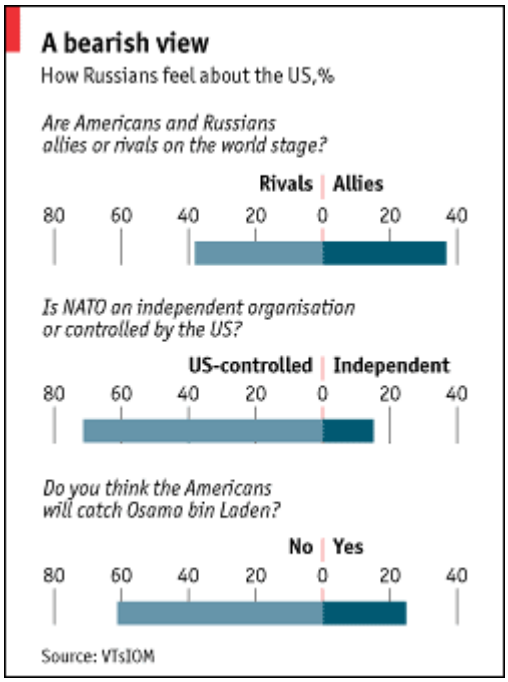
Beyond Western Europe's big three, the picture is more nuanced. The governments of Italy and Spain have been unambiguously warm towards Mr Bush since September 11th. Silvio Berlusconi, Italy's media-mogul prime minister, is eager to set himself apart from what he sees as his crabbier counterparts elsewhere in Europe. Popular opinion in Italy is fuzzier. Ordinary Italians enjoy American culture but have mixed feelings about American power. The old left is still thoroughly anti-American. The centre-left and many Catholic traditionalists supported America's bombing in Kosovo but are edgier about the war against terrorism. A few months after September 11th, one startling poll found that one in three Italians thought the felling of the twin towers had been “somewhat justified”.

Spain's conservative prime minister, Jose Maria Aznar, has himself survived a car-bomb attack by Basque separatists, and keenly backs Mr Bush's war on terror. But he knows that Spaniards' anti-American feelings still linger, not least because of American “imperialism” in Latin America.

In the smaller countries, attitudes are strangely mixed. Anders Fogh Rasmussen, Denmark's rightish prime minister, met Mr Bush in Washington two months ago and emerged smitten. “The relationship between Denmark and the United Statesis the best it has been since the second world war,” he trilled. And what about those new American steel tariffs? “Denmark doesn't produce steel.” Sweden's (leftish) government has expressed enthusiasm for Mr Bush's campaign against terror. Norway's (rightish) one has been more critical of America's treatment of the al-Qaeda prisoners taken to its Guantanamo naval base in Cuba and its alleged neglect of the Palestinian cause.

A bearish view

How Russians feel about the US,%



Source: VTsIOM

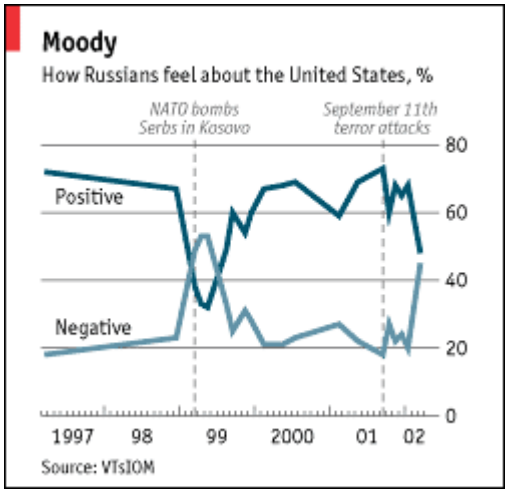
As for Greece, resentment goes back to America's support for the military dictatorship of 1967-74 and was reinforced during the Kosovo conflict, when 90% of Greeks opposed NATO's bombardment of the Serbs, their brethren in Orthodoxy. Just days after September 11th, a poll found that 30% of Greeks thought the terrorist attacks on the United States were justified.

Probably the least carping of Europeans are those who lived in what Ronald Reagan called the Soviet Union's “evil empire”, another American phrase that caused mirth in Europe, except to those who lived wretchedly under the empire's heel. In Poland, flush with pride at becoming a member of NATO, bashing America wins no votes. Indeed, more than 70% of Poles regard it as their “vital ally”. The same pro-Americanism is found in most of Central Europe's would-be NATO members. Only the Czechs,

recent NATO joiners, appear to have lost a bit of post-Soviet enthusiasm for America.

Mr Bush was expected to say all manner of reassuring things about the continuing importance of Europe on his way through the continent this week. But to American eyes, Europe is a problem solved. What really counts will be his time with Russia's president, Vladimir Putin, first in Moscow, then in the Putins' home city of St Petersburg, and finally at a NATO summit on May 28th in Rome.

A decade after communism collapsed, ordinary Russians have lost much of their post-liberation infatuation with America. In 1991 70% of Russians said they felt positive about the United States; now only half retain warm feelings and 45%, up from only 8% in 1991, describe their attitude to America as broadly unfriendly.



All the same, this week's will be the third meeting within a year between Mr Putin and Mr Bush. Mr Putin has made little fuss about American missile defences, or the end of the ABM treaty, and has seized on the war against terrorism as an opportunity to bind Russia closer to the West. With a strategic prize such as this under his belt, and if the Rome summit goes as planned, Mr Bush should be able to shrug off the odd European barb. Blessed by the pope and glowing from the expected pro-American smile of Italy's Mr Berlusconi, he should fly home confident of a new relationship with Russia. If other Europeans feel left out? Too bad.

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Taboos in Germany

They're being broken

May 23rd 2002 | BERLIN
From The Economist print edition

Despite feelings of past guilt, Germans are getting less coy about nationalism

FOR half a century, Germans have been obsessed with their war-time guilt. So much of what they do or say is still interpreted, by themselves as well as by others, through the prism of the Holocaust. It is the cornerstone of their identity. But since Germany's reunification, and more particularly since Gerhard Schröder became chancellor, a new generation of Germans that feels no personal blame for Nazi crimes has become less willing to be held hostage to the past. They want to stand up for their national rights like other Europeans, answer back when unjustly castigated, and express national pride.

That means old taboos are being gradually broken. But sometimes, even for more robust German stomachs, this process of “normalisation” goes too far too fast: witness two recent incidents of national breast-beating, one over the ethnic Germans expelled from Czechoslavakia after the second world war, the other to do with German-Jewish relations.

“Whenever Israel is discussed in Germany,” Joschka Fischer, Germany's foreign minister, commented last week, “the fundamental debate about German identity is never far behind. Can we criticise Israel? The very question raises suspicion.” So Jürgen Möllemann, deputy leader of the Free Democrats, Germany's small liberal party, recently learned to his cost. Compared with criticism elsewhere in Europe of Israel's recent conduct, adverse comment in Germany has been mild. Many Germans were thus shocked when Mr Möllemann, an ex-paratrooper who heads the German-Arab Society, said that if his country were occupied, “I too would resist, indeed violently, not just in my own country but also in the aggressor's.”

Paul Spiegel, head of the Central Council of Jews in Germany, angrily accused Mr Möllemann of fostering “a dangerous anti-Semitic tradition, which in the land of the murderers evidently still exists.” Matters got worse when Jamal Karsli, a Syrian-born applicant to join Mr Möllemann's liberal group in North Rhine-Westphalia, denounced the Israeli army for using “Nazi methods” and complained about the “influence of the Zionist lobby” in the world's media. An alarmed Mr Fischer accused the Free Democrats of becoming a “repository for anti-Semitic views”, while Mr Schröder charged them with “Haiderisation”, a reference to Austria's anti-immigration populist, Jörg Haider.

In fact, the Free Democrats are one of Germany's most tolerant, open-minded and pro-Israeli of parties. Since the world war, they have provided most of the foreign ministers who have embodied Germany's belief in a Jewish state's inviolable right to exist. Just this month, at a party congress, they reaffirmed that view. Many of Germany's Jews belong to the party.

As good liberals, the Free Democrats have always upheld the right to free speech. But many of Mr Möllemann's colleagues feel he has now gone too far, not only in his indelicate criticism of Israel but also in his attack on Michel Friedmann, an abrasive television chat-show host and deputy leader of the Jewish Council, whom he accused of contributing to the spread of anti-Semitism with his “intolerant and spiteful style”.

Many German Jews themselves agree with Mr Möllemann. But it is still widely considered unacceptable for non-Jewish Germans to criticise Jews. Mr Schröder has called Mr Möllemann's comments “highly dangerous”. A top Green says he should be sued for libel. Liberal bigwigs are relieved that Guido Westerwelle, their leader, has kept Mr Karsli out of the party and are urging him to distance himself from Mr Möllemann, hitherto one of the party's stars. They fear that the liberals' hope of getting back the foreign ministry after September's election may otherwise be dashed.

It is still widely considered unacceptable for non-Jewish Germans to criticise Jews

The other recent row, over the several million Germans brutally expelled more than 50 years ago from the Sudetenland in what is now the Czech Republic, also demonstrates how hard it still is for Germans to shake off the burdens of their past. The issue has long rankled between German and Czechs. The wound was supposed to have been healed by a treaty in 1997 but in March Mr Schröder cancelled a trip to Prague after the Czech prime minister, Milos Zeman, accused the Sudeten Germans of having served as “Hitler's fifth column”. Last weekend he declared that they were lucky not to have been put into concentration camps.

But it was Edmund Stoiber, Bavaria's prime minister and the conservatives' challenger for the chancellorship in September, who really stoked things up this week by hinting that the Czechs should not join the EU until they had repealed the Benes decrees named after the post-war Czech president who sanctioned the Sudeten Germans' expulsion.

Mr Stoiber has long championed the Sudeten Germans' cause. Many of them, including his wife, are now Bavarian. Otto Schily, Germany's interior minister, scolds Mr Stoiber for “rabble-rousing talk that smacks of dangerous nationalism”. Yet, with his own eye on the Sudeten vote, Mr Schily too has now called for the Benes decrees' repeal, though not as a precondition for the Czechs' EU membership. It is the first time a German government minister has gone so far. Another taboo broken.

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Gender in France

The mystery of language and ideology

May 23rd 2002
From The Economist print edition

When a change of government means a change of grammar

BRAVO for Michèle Alliot-Marie, appointed this month as France's first woman minister of defence. She is proving herself the guardian not just of France but of its linguistic purity, defining her title in a correctly masculine way, as Madame le ministre, and not, as feminists in the old left-wing government insisted, as Madame la ministre.

What's in a “le” or a “la”? A great deal, according to Maurice Druon, 84-year-old “perpetual secretary” of the 40-member Académie française, set up by Cardinal Richelieu in 1635 to fix and preserve the rules of the French language: hence “française” as an adjective has no capital letter. This week Mr Druon complimented Mrs Alliot-Marie's wisdom—and rounded on Olivier Schrameck, who as cabinet director of the former prime minister, Lionel Jospin, had “confounded sex and gender” and had “given himself the right, for the first time in History, to modify the language by government intervention.” In Mr Druon's view, “he who writes badly, thinks badly, and so governs badly.”

Perhaps. But Mr Druon and the “immortals”, as academicians are known, do not help the writer. Why, for instance, is “amour” (love) masculine in the singular and, by tradition, feminine in the plural? Or why does the word “gens” (people) take a feminine adjective before it but a masculine one after it? Mr Druon, who must hope that his madame le ministre does not lose her job to a madame la ministre after next month's general election, should explain.

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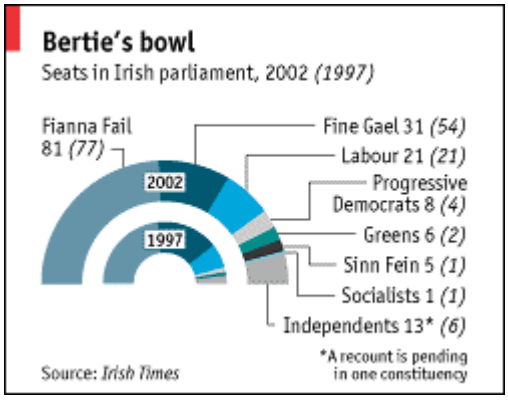
The Irish general election

Return of the teflon taoiseach

May 23rd 2002 | DUBLIN
From The Economist print edition

The right wins, the centre collapses, the fringe gains



THE Irish, whose economy has raced faster than any other in western Europe over the past decade, have—not surprisingly—voted for more of the booming same. In a general election on May 17th their prime minister, Bertie Ahern, and his rightish Fianna Fail party triumphantly won another stint in power. Falling just a couple of seats short of an overall majority in parliament, they may again govern with the same little band of economic liberals, the Progressive Democrats, as their very junior coalition partners.

But the election's most striking outcome was the collapse of the middle-of-the-road Fine Gael, the failure of the centre-left Labour Party, and the rise of independent fringe candidates and parties, including Sinn Fein, the political wing of the Irish Republican Army that until recently had been trying to bomb the British out of their Northern Irish province. This may change the shape of Irish politics.

Fine Gael's defeat was indeed its biggest ever; its leader, Michael Noonan, promptly resigned. In contrast, smaller parties generally hostile to the European Union made strides. Still, neither they nor parliament's dozen-plus independents (some recounts were still under way as *The Economist* went to press) can hope to exercise the same leverage as four independents did in the previous parliament, where Mr Ahern ran a minority coalition government. The Progressive Democrats, who have helped prop up Mr Ahern for the past five years, doubled their tally of seats to eight and look set to help him again when parliament assembles on June 6th to vote in a new government.

It was the first time in more than 30 years that Ireland's voters had re-elected their government. Fianna Fail got less than 42% of votes cast but under the country's system of proportional representation and single transferable votes, whereby voters can choose their second preferences (and more), larger parties get a bonus of seats. This time the winners got 49% of the seats.

The most dramatic gains were made by Sinn Fein. Up from 2% to 6.5% of the vote, it got five seats and nearly grabbed another three, making it the only party with a parliamentary voice in both parts of the divided island (and seats that it refuses to occupy in Britain's Parliament). Four out of seven supposed members of the IRA's ruling military council now have seats in Dublin or London. One of Sinn Fein's winning candidates, a former convicted gun-runner for the IRA, beat a former foreign minister, the Labour Party's Dick Spring.

Sinn Fein's success was less due to its nationalist appeal as the party striving to unite the island than to the dynamism of its young candidates who work in community politics in Ireland's poorest areas. The Greens tripled their tally of seats. Many independent candidates standing on single issues did well too.

Another notable electoral change is that the old rivalry between Fianna Fail and Fine Gael, whose origins go back to the civil war of 1922-23, may at last have become irrelevant. The two parties' combined vote has dropped to 64% from 84% in 1982. Irish politics may now split down a more traditional left-right line that reflects inequality between rich and poor.

The old rivalry between Fianna Fail and Fine Gael may at last have become irrelevant

A priority for the government will be to cut spending and cool down a roaring-hot economy. Another will be to persuade people to vote for the EU's Nice treaty, which they rejected by

a narrow margin a year ago and must be ratified by all 15 countries in the EU to let a dozen or so countries, mainly from Central Europe, join the club. But, like other Europeans who have recently been scolding politicians in the mainstream centre, the Irish now have a lot more Eurosceptics in their parliament. It will not be an easy job but if anyone can pull it off it is the wily Mr Ahern. He is not called the “teflon taoiseach” for nothing.

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Spanish labour law

A general strike looms

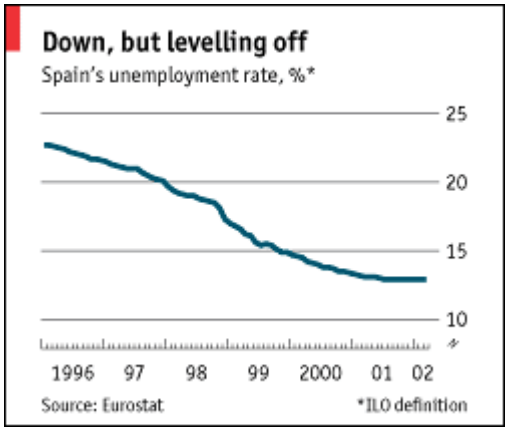
May 23rd 2002
From The Economist print edition

The trade unions reject government plans to alter unemployment benefits

THEY have managed six years in office without provoking a general strike—a happier record than that of their Socialist predecessors. Last year they drove a wedge between Spain's two big trade-union confederations. But now Jose Maria Aznar and his People's Party government have reunited the union pair and face a general strike on June 20th—by no accident, the day before the Seville summit that is meant to mark a triumphal end to Spain's presidency of the European Union.

The issue, just as in Italy, is a reform of labour law. Indeed the Socialists have accused Mr Aznar of "combining the most reactionary policies of Margaret Thatcher with the social insensitivity of Silvio Berlusconi." Last month, his labour minister, Juan Carlos Aparicio, after little consultation with the unions or indeed the employers, presented plans to reform unemployment benefit. These would penalise workers who refuse a new job—almost any sort, at any pay—offered within 50km (31 miles) of their homes. In cases of allegedly unfair dismissal, they would end the present transitory full payment of wages until a labour court makes a judgment. They would also slowly replace a scheme that covers seasonal farmworkers in the south with a new nationwide one. In sum, said the two union bodies, the aim was to make sacking cheaper and easier, and no way would they negotiate about that.

The background is one of several years of a steady slide in unemployment, but one that seems now to have levelled off (see chart); plus highly protective labour laws, born in Spain's centralist and less market-oriented past. These have been modified since, and employers became adept in the later 1990s at getting round them with short-term hirings. Anyway, in those prosperous years, the main issue was finding workers, not firing them; job numbers soared. Times are harder now.



The unions argue that the unemployment fund, mainly financed by employers, is sitting on a fat surplus, and that 40% of the jobless do not, in fact, get anything. The government should be thinking of better benefits and wider coverage, they told it in a series of meetings, not the opposite. On May 1st they had a lively protest rally and mobilised their troops for more.

This week they gave Mr Aznar another ultimatum. Either you receive us personally and we start negotiating from scratch or we all go on strike, they said. But Mr Aznar is not a prime minister one picks a fight with lightly. He is quite as tough as Mr Berlusconi, vastly more experienced in political manoeuvre, and better positioned. He has no coalition allies to keep sweet, and no charges of personal scandal to fight off. The unions have the backing of the far left. But the main Socialist party opposition, wary of lurching too far from the centre, has been lukewarm. One of its bigwigs even made a point of saying he would work on strike day. Mr Aznar is quite capable of making monkeys of the lot of them.

Not that the unions are a huge force. Among Spain's 15m-odd employees, the two confederations together, the socialist UGT and the rather larger ex-communist CCOO, claim only 1.6m members; add in minor bodies that may support them, and the total is well under 2m. Their opposition to a government-backed reform of labour law last year was pretty feeble.

Yet they are becoming more active and more united: the two groups rowed last year, when the CCOO accepted a government plan on pension reform and the UGT said no. Whether the two can win public support together is yet to be seen. If they can bring Seville to a halt just before Spain's big day in the

EU's presidency, that may show they still matter—at least a bit.

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Cyprus

Breakthrough?

May 23rd 2002 | ATHENS
From The Economist print edition

A settlement in Cyprus still depends on shifting the same immovable objects

Get article background

THE UN's secretary-general, Kofi Annan, sounded doggedly hopeful after visiting the divided island of Cyprus last week. Its Greek- and Turkish-Cypriot leaders could still, he insisted, meet their self-imposed deadline of June 30th for agreeing to the main points of a deal that would remove the barbed wire that now separates their communities.

Mr Annan acknowledged that Glafcos Clerides and Rauf Denktash, the island's Greek and Turkish leaders, still had to jump some big hurdles—over methods of governing the island, security, territory and property. But if they succeed, lawyers would then fill in the details of an accord to be signed before the EU's grand summit at the end of this year, when the club's current members have to decide which countries should be let in, perhaps as soon as 2004. If a deal is struck, Cyprus will be in. If not, it is conceivable that the Greek-run part would join anyway. But many EU countries would rather it did not, because a bitter quarrel would then erupt with Turkey, a strategically vital NATO member and itself a candidate to join the EU in the long run.

Even before Mr Annan flew away, Mr Denktash, the Turkish-Cypriot leader, dampened the optimism. A deal would take several more months to reach, he said. Since January he and Mr Clerides have been meeting three times a week, with scarcely a break. Alvaro de Soto, a Peruvian diplomat who is Mr Annan's special envoy for Cyprus, sits in on the talks, but, under conditions set by the two leaders, he does not offer suggestions.

The negotiations seem stuck in the same old groove. Mr Denktash still wants the Greek-Cypriots to recognise his republic in the northern third of the island before he agrees to hand back territory and property. Mr Clerides insists Cyprus must be deemed a single state, though Greeks and Turks would run their own affairs.

Mr Clerides, though, may have shifted a bit. Speaking on CNN television just before Mr Annan arrived, he mooted the notion of two “cantons”, a word Greek-Cypriots used to dislike for its echoes of Swiss-style confederation rather than the loose federation the Greeks would prefer. Mr Clerides also made it clear that a future central government would not have the right to intervene in the affairs of either community. Their judiciaries, for example, would remain separate.

It is possible, given more nudging by the Europeans and Americans, he could find a way of describing Mr Denktash's domain that could be understood, at least in the north, as recognition. Provided, of course, the Greeks get back their favourite northern villages: when the Turks invaded in 1974 after an abortive coup by Greeks that briefly threatened to unite the island with mainland Greece, some 38% of the land ended up under the Turks, who until then had made up less than a fifth of the population.

A deal is not out of the question. Mr Clerides, due to retire from politics when he steps down as president next February, wants to crown his career with reconciliation with the Turkish-Cypriots. Mr de Soto may start to get more involved in the discussions. The key question now is whether mainland Turkey will squeeze Mr Denktash into giving ground.That is less likely if the health of Turkey's leftish prime minister, Bulent Ecevit, continues to decline, resulting in political paralysis in Turkey (see article).

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Turkey

Ailing premier, rocky government

May 23rd 2002 | ISTANBUL
From The Economist print edition

Hopes for reform in Turkey and a deal over Cyprus are under threat

AP

But Mrs Ecevit says he's fine

JUST as Turkey's battered economy is beginning to look a shade steadier and hopes for a deal over Cyprus have begun to rise a little, the country's political stability is being threatened by fears that its leftish prime minister, Bulent Ecevit, may be too ill to stay in charge. For more than a week, Turkey has been run from a hospital, where Mr Ecevit has been suffering from a vascular ailment in a leg and a cracked rib. Before that, he was confined for a fortnight to his modest flat, watched over by his fiercely protective and influential wife, who said he was in fine form, thank you very much. But in general Mr Ecevit's health has been poor and may be worsening.

His latest illness has prompted talk of an early general election. Many fear that that might unravel a year-old IMF plan to rescue the country from its worst recession since 1945. Inflation, which was running at an annual rate of 73% in January, has come down to around 53% at last count, while industrial output and exports have recovered quite a bit. The government is still banking, however, on being allowed to roll over some $200 billion of public debt. That will happen only if political stability and a strong government endure.

Moreover, the Cyprus dispute can be solved only by a strong government in Ankara, the capital, that would have to be brave enough to prod the Turkish-Cypriots' leader, Rauf Denktash, into dropping his long-standing demand that his republic in the northern part of the island should be recognised as sovereign. If Cyprus remains unsolved, Turkey's own path towards joining the EU will become much stonier.

The country's economy minister, Kemal Dervis, who came back from the World Bank last year to fix the mess, says that an early election might helpfully clear the air, even though the political landscape could change sharply. Opinion pollsters suggest that none of the three parties of left, centre and far right that now make up Turkey's ruling coalition would get the minimum 10% of the nationwide vote that ensures seats in parliament. A new Islamist party called Ak (White), set up by Tayyip Erdogan, a former mayor of Istanbul, would apparently win an election hands down. Pollsters give it around 20%.

That would throw Turkish politics into turmoil. Turkey's influential generals are still fiercely against letting Islamists run the government. So long as Mr Ecevit, now 76, is alive and able to give orders from hospital or home, they will want him to stay put. But only a robust Mr Ecevit could squeeze Mr Denktash into making the concessions needed to break the stalemate in Cyprus. The UN's Kofi Annan may have left the island sounding hopeful. The mood in Ankara is much glummer.

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Charlemagne

Romano Prodi, a desperate integrationist

May 23rd 2002
From The Economist print edition

Europe's bigger nation-states will turn their guns on Brussels's latest plan for ever closer union

Get article background

THE convention on the European Union's future is taking place in Brussels. Perhaps it would be more appropriate to move the meetings a few miles down the road to Waterloo. For the proposals fired off by the European Commission on May 22nd read like a last death-or-glory assault by the federalist Old Guard on the remaining powers of Europe's nation-states.

The commission, which has always seen itself as the true guardian of the European flame, proposes in essence to abolish the right of individual EU countries to run their own foreign policies. Unveiling his ideas before the European Parliament, Romano Prodi, the commission's head, Napoleonically demanded that the EU should “speak with one voice on all aspects of external relations.” The model he has in mind for foreign and security policy is the existing one for trade, on which the EU already speaks and negotiates as a team. Just as there is no longer a British or a French trade policy, just an EU position, so Mr Prodi envisages the end of independent foreign policies. In his paper he proposes a formal mechanism for forging a single European foreign policy. A single “high representative” for foreign policy would be based in the European Commission. He would propose foreign-policy initiatives, which EU countries would endorse by majority vote.

Mr Prodi's ambitions do not stop there. He wants to give the EU the right to raise direct taxes. He also foresees “common border controls and an integrated European police force”. The commission must also influence national governments' budgets much more strongly; the single currency, so the paper argues, requires it. Mr Prodi is not exaggerating when he says his plan would mark “a giant step towards European integration”.

But will it ever happen? There is little sign that the EU's bigger countries are ready to tread the path that Mr Prodi has laid out for them. The British are as reluctant as ever to contemplate tighter integration. The French have drawn a clear “red line” against losing their independent foreign policy. The Italians under Silvio Berlusconi are much less federalist than they used to be. Spain is now running the EU presidency under the slogan “more Europe”, but its prime minister, Jose Maria Aznar, is no aficionado of the commission. The German foreign ministry retains strong federalist instincts but Gerhard Schröder, the chancellor, recently suggested that an overweening EU was partly to blame for the rise of Europe's far right; and Edmund Stoiber, his challenger in September's election, is even less Europhile.

Indeed, the EU's bigger countries are likely not just to resist the commission's proposals. They have ideas of their own which directly threaten the commission's prerogatives. Jacques Chirac, France's president, has suggested that Europe's national leaders should elect a politician to run the EU's Council of Ministers for a period of up to five years. Such a person would inevitably if informally be dubbed “Europe's president”. Britain and Spain have keenly praised Mr Chirac's idea.

The EU's bigger countries have ideas of their own which directly threaten the commission's prerogatives

To those unversed in the arcane ways of debates in Brussels, proposing a European president might seem just as integrationist as anything Mr Prodi has come up with. But note a crucial difference over the nature of democratic legitimacy in Europe and therefore over who should exercise power. The commission and the parliament are supra-national institutions that seek to identify and promote pan-European policies. The Council of Ministers is where Europe's nations get together to strike bargains in a more traditional, diplomatic forum. When the French and the British propose to beef

up the council at the expense of the commission, they are asserting the legitimacy of elected national politicians over politicians or officials based in the European Parliament or in the commission. Creating a more powerful council president, though presented as a matter of efficiency, would also ensure that the European Commission's president is no longer seen as the Union's personification.

So the battle lines in Europe's constitutional debate are now much clearer. Mr Prodi's people admit they have taken a risk by unveiling such radical proposals. But they think that many Euro-MPs, who are well represented at the constitutional convention, will back them. Mr Prodi's colleagues also believe that it will gradually become plain that their proposals are the most logical and workable. As one senior official puts it: “Europeans keep saying they want more powerful European policies on issues like security and immigration. Well, this is the only way to achieve them.” Perhaps most powerfully of all, Europe's federalists still believe that history is on their side.

The tide also ebbs

A glance at the last half-century suggests they have a point. The flow of power from nation-states to the EU has been remorseless. The single currency, the biggest leap yet towards integration, may impel further integration. Yet there is also a growing feeling that the tide has turned against integration. The generation epitomised by Helmut Kohl, François Mitterrand and Jacques Delors, who together created the euro, has gone. Across the EU, centre-right governments more sceptical about integration are coming to power. Most seriously of all, the much-discussed “disconnect” between Europe's politicians and ordinary voters is manifesting itself in a surge of votes for populist and nationalist parties, even in countries like the Netherlands and France, at the EU's very core. In response, national politicians across the EU are sounding harsher about “Brussels”.

How wrong-headed, say Mr Prodi and his friends. A supra-national democracy, he argues, is the answer to “fears besetting Europe”. But his commission is beset by its own fears. It can see its authority being challenged. The political climate is changing. For the arch-federalists, the convention may be the last great opportunity for a bold integrationist charge. Like Napoleon before Waterloo, they have decided to gamble.

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The economy

Why Britain isn't saving

May 23rd 2002
From The Economist print edition

People need to save more; but the tarnished reputation of the savings industry isn't likely to encourage them

ONCE again the sermon has been preached from on high: save more. On 20th May, Alistair Darling, the minister for work and pensions, told the House of Commons that “most people are not saving enough for their retirement”. The same day, the Financial Services Authority (FSA) warned that as people live longer, they must save more if they are to avoid an impoverished old age.

Down there in the pews, no one is paying any attention. Rather than saving more, consumers are on a borrowing binge. On May 21st, new figures showed that mortgage lenders had advanced a record £16.9 billion ($24.3 billion) in April. The recent borrowing boom has driven household saving down from around 10% of disposable income to about 5%.

This decline is not quite as alarming as it may seem. The movements in borrowing which drive the saving ratio largely reflect the state of the economy. Individuals are currently borrowing more because interest rates are so low and they wish to release some of the increase in their housing wealth. Meanwhile, the fall in stockmarkets has made people nervous about purchasing equities. Net sales of unit trusts (mutual funds) to individual investors almost halved in 2001.

A much greater cause for concern is that so few Britons have any savings to speak of at all. The average holding is currently about £12,500, according to NOP Financial Research, but over 40% of adults have savings and investments worth less than £1,000. “A big chunk of the population has put nothing aside,” says Nick Watkins, the firm's managing director. Research for the Association of British Insurers (ABI) has highlighted an annual savings gap of £27 billion—the shortfall in the amount needed to ensure an acceptable income in retirement. Closing this gap would require savings to rise by over half.

The government's stakeholder pension is designed to plug some of this gap by providing a low-charge plan for workers earning between £10,000 and £20,000 a year. In its first year—just ended—815,000 policies have been sold. However, many of these have gone to people outside the target group, such as non-working spouses of more affluent earners.

The FSA is especially concerned about low saving among young

people in their 20s. This is partly because they are starting work later; it is also because many are now encumbered with student debts. Pension coverage of 18-24 year-olds also fell in the 1990s. “The net effect is that they have less savings to their name in an environment where they're likely to live a lot longer,” says Carol Sergeant, a managing director of the FSA.

The FSA wants younger people in particular to start planning seriously for their retirement. But such admonitions come at an awkward moment. Faith in the long-term saving industry has been eroded by a succession of scandals, notably over the mis-selling of personal pensions. In the past two weeks, there have been two further blows to confidence. Worries about whether endowment policies will deliver high enough returns to pay off mortgages have intensified. The ABI said on May 13th that 35% of advisory letters being sent to endowment-policy homebuyers were coded red, meaning that there was a high risk of a shortfall. Two years ago, only 15% fell into this category. With a further 26% receiving an amber warning that they faced a significant risk their policy would not deliver the target sum, some 3m-4m homeowners are likely to be affected.

These shortfalls do not represent a scandal like the mis-selling of personal pensions. Nor is it all bad news for holders of endowment mortgages. The fall in inflation, which is driving down future nominal returns and so reducing the prospective value of the endowment policies, also means that homebuyers are paying less in mortgage-interest payments. But the worry is that homebuyers were not made sufficiently aware of the risks they were taking when they took out equity-linked endowment policies to pay off their mortgages. Already the FSA has fined two firms for mis-selling and the industry has put aside £300m to cover potential claims from 240,000 consumers.

In a second blow to confidence, falling equity prices have revealed a scandal in the split capital investment-trust industry. Like unit trusts, investment trusts invest in securities. But unlike unit trusts, they are themselves quoted companies so that investors buy their shares to acquire a stake in those securities. Splits in turn offer different types of shares, conferring different rights, to investors. Some splits borrowed heavily both to buy securities and to invest in each other in “a contagious cocktail”, according to John Tiner, a managing director of the FSA. A Molotov cocktail more like: when equity markets fell, the share prices of 27 splits declined by up to 98% in the three years to March. Yet investments in splits were marketed as being “safe as houses” or “having more safety characteristics than a Volvo”, said Mr Tiner, launching an investigation into misleading promotional material and possible mis-selling to private investors.

The drip-drip of these various scandals has led to a “crisis of confidence among savers and investors”, says Janet Walford, editor of *Money Management* and a veteran observer of the long-term savings industry. So what is to be done? One priority, everyone agrees, is better financial education. Another essential is for financial products to be made simpler and more comprehensible. A Treasury-sponsored review of the long-term savings industry is expected to call shortly for much greater transparency in with-profits policies, a mainstay of the life-insurance industry. From next year, people will also be provided with more realistic illustrations of the income that money-purchase pensions will actually deliver in today's money when they retire.

Such reforms may help to restore confidence and to prevent future mis-selling. But another reform is likely to be counter-productive. From next year, the pension credit will top up the incomes of 5m pensioners including those with modest occupational pensions or income from saving. This will help today's poorer pensioners. However, it will make it less worthwhile or even pointless for many of today's low-income workers to save for retirement.

The government wants to encourage more voluntary pension saving especially among low-to-middle income earners through stakeholder pensions. It is also bolstering the income of poorer pensioners with generous means-tested benefits. The two policies are incompatible in the long run. Sooner rather than later, the government may have to compel rather than urge higher saving for retirement.

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About sponsorship

War on terror

Marines in a spin

May 23rd 2002 | LONDON AND BAGRAM
From The Economist print edition

The marine commander who was too honest for his own good

AP

IF THE British government likes to keep a tight political rein on senior military officers, that may be a legacy from Margaret Thatcher, who vowed “never again” after a messy public row over naval spending in the early 1980s. Or it may reflect an even older tradition; it was in 1757, after John Byng was executed on the deck of the ship he had unsuccessfully commanded, that the French philosopher Voltaire noted the English habit of “killing an admiral from time to time to encourage the others.”

Even by British standards, however, the treatment meted out to Brigadier Roger Lane, commander of the marine contingent in Afghanistan, by his political masters in London seems cruel and unusual. After a whispering campaign against him at the defence ministry, he is being recalled earlier than usual, with no new job immediately in sight; and he has been chided in public for mishandling the press.

The marines' deployment to Afghanistan—which was billed as Britain's biggest combat operation since 1991 but has not, so far, involved a single firefight—has been dogged from the start by bad luck, including an epidemic of a feverish illness known as “winter vomiting”. Then came the row about the brigadier, perhaps the biggest public-relations fiasco about a military operation since Labour came to power in 1997.

Efforts to limit the damage only made things worse. Geoff Hoon, the defence secretary, defended the commander in a television interview on May 19th—only to admit shortly afterwards that he had not been aware while speaking that Brigadier Lane was soon to be replaced.

The following day, Admiral Sir Michael Boyce, the chief of the defence staff, reaffirmed Whitehall's confidence in the brigadier, insisting that his imminent recall reflected a decision taken several months ago. The admiral gallantly took a share of the blame for having initially “ramped up” the dangers of the marines' deployment in Afghanistan. But General John Reith, the armed forces' chief of operations, praised the brigadier (with whom he had clashed in private) in terms that were damningly faint: “He may not have got it right in the media-handling side of things—but he is a straightforward soldier who has done a really good job.”

In fact, being too straightforward may be the weakness of the brigadier, whose 30-year career has included stints in Cyprus, Norway and Belfast—but not much training in the black art of spin-doctoring. Among the reporters who camp out at the Bagram airfield near Kabul, he is generally liked as a no-nonsense, unpompous officer. He carries his own rifle (“why should my men have the burden of protecting me?”) and, like everybody else, he waits in line for nasty canteen meals and then eats them standing up.

Tact, admittedly, is not his strong point. Back in October, he publicly disagreed with Mr Hoon, who had said the marines were ready to go straight to Afghanistan.

But the brigadier's gravest sin, it seems, was an assertion two weeks ago to a group of reporters, including a correspondent from *The Economist*, that “the war [against remnants of the Taliban] is all but won.” This was in open contradiction of Washington's insistence that Afghanistan's erstwhile rulers and their allies in the al-Qaeda network are still a powerful force, requiring massed military might to quash

them. The brigadier's “emperor's-got-no-clothes” bluntness seems to have drawn an angry reaction in high American places.

So was his playing down of the Taliban threat a foolish throwaway line, which reflected the brigadier's personal view rather than the consensus among the British military? That is certainly not how it seemed to the four reporters present.

The remark was made during a briefing in which the brigadier mostly read from a written statement, with an eagle-eyed defence ministry official beside him. Among his prepared remarks was the observation that “in substantial parts of the country the need for offensive operations is beginning to dwindle, and they will be completed in a matter of weeks rather than months.” The “all but won” phrase was his own, but it seemed consistent with his instructions.

He and a group of fellow officers went on to make the case that the mission then in progress (known as Operation Snipe, which has connotations of “wild goose chase” to American ears) did serve some purpose. The marines had mapped out an area which the Taliban might try to reoccupy, and they had established good relations with some local militias. Since then, some local people have confirmed that they welcomed the British ground presence; it reduced the risk that they would be mistaken for Taliban and bombed.

As the brigadier can testify, there is nothing worse than being wrongly identified as a bad guy at a time when everyone is looking for someone to blame.

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Asylum

And stay out

May 23rd 2002
From The Economist print edition

A permanent revolution in asylum policy

THE Red Cross camp at Sangatte, near Calais, may well be only a small extra incentive for asylum-seekers and economic migrants who have crossed a continent or two on their way (they hope) to a better life in Britain. But nightly pictures of the camp's inmates storming into freight terminals and on to trains entering the Channel Tunnel (at great cost to freight and rail operators) have made Sangatte a symbol of Britain's perceived invasion by unwashed hordes.

So reports on May 22nd that a deal was about to be struck with France to close the Sangatte camp ought to have pleased the government. In fact, no deal has been reached, and none is likely to be until after next month's French elections. British government sources say that any arrangement will have to include better protection of France's land borders. But—and here's the rub—it may also involve Britain taking in, if only temporarily, some of the camp's current inmates. “Blackmail”, yelped the *Daily Mail*, a tabloid, which, like the Conservatives and others, wants Britain to send asylum-seekers back to France, rather than the other way around.

So it was perhaps fortunate that some eye-catching asylum-policy proposals, put together by a Downing Street adviser, were leaked on the same day. Earlier in the week, Tony Blair had discussed ways of improving EU-wide asylum policy with Jose Maria Aznar, the Spanish prime minister. One of the possibilities mooted was the idea of making aid to countries outside the EU conditional on their taking back failed asylum applicants. The leaked document also raises the prospect of the Royal Navy patrolling Mediterranean people-smuggling routes, and of the military helping to deport failed asylum-seekers. Among other brilliant ideas, it reportedly advocates more removal camps for failed asylum applicants—similar to the Yarl's Wood camp which was partially burned down by rioting inmates in February.

Many of these suggestions are unlikely to be realised. In any case, the government is having enough trouble implementing its last great revolution in asylum policy, the legislation for which is currently going through Parliament.

One plank of its reforms is a trial of accommodation centres for asylum-seekers, which will hold 3,000 people at any one time (last year there were 88,300 asylum applicants). Like many innovations in British public policy, this one has been loosely copied from elsewhere in Europe. The centres could be a better way of dispersing asylum-seekers across the country than (as has happened in the past) pouring them into run-down council estates in northern cities. But the government has managed to botch the idea, by selecting impractical sites in rural areas, whose only virtue is that they are on Ministry of Defence land. All the experts agree that asylum-seekers would be better looked after in smaller facilities in urban areas.

The forthcoming parliamentary election in France, and the past and potential success of Jean-Marie Le Pen, probably explains the sudden and premature eruption of the Sangatte story this week. Mainstream French politicians understandably want to reassure Mr Le Pen's potential constituency that they too are worried about immigration. Likewise, Mr Blair seems determined to pre-empt any trouble-making by Britain's relatively puny far right. This has generally meant ministers talking up the asylum problem. For instance, David Blunkett, the home secretary, recently talked about asylum-seekers “swamping” public services (“swamping” is a term with a long and controversial political history).

But in the long run, it might be easier for the government (not to mention the asylum-seekers) if the public were given more facts and less demagoguery. For instance, rather than parroting the low figure for the proportion of applicants who are granted asylum at the first hurdle, ministers could publicise the far higher number who are eventually permitted to remain. Or they could point out that, in 2001, Britain ranked only ninth among EU countries for the number of asylum applications it received, relative to the

size of host populations. Or that, last year, the booming countries of origin for asylum-seekers were (surprise) Zimbabwe and Afghanistan.

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Transport

What's wrong with roads?

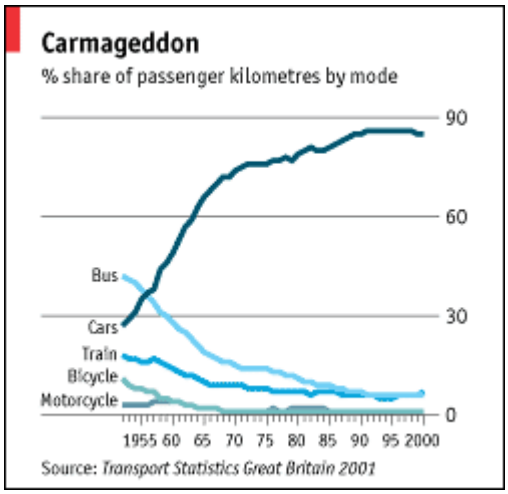
May 23rd 2002
From The Economist print edition

Why is rail getting three times as much investment under the government's ten-year plan as are roads, when the roads carry nine-tenths of the traffic?

Get article background

THE revelation that Lord Birt, a transport adviser to the prime minister, is to advocate a network of new super-motorways paid for by tolls was greeted with the usual hostility that any pro-car scheme provokes. Yet the suggestion addresses a serious problem.

Britain's roads are already the most congested in Europe. The Commission for Integrated Transport, a government-funded research body, pointed out this week that, without tolls or some other means of restricting road use, congestion was bound to get worse. Research by the Transport Research Laboratory indicates that journey times could increase by as much as 85% by 2015.



A study published last week by the Royal Automobile Club says that, in order to keep congestion at today's levels, investment will have to be increased five-fold and sustained at that level for the next 30 years. The only other way of stabilising congestion, according to the study, would be to increase fuel duties by 6% a year, equivalent to quintupling motoring taxes over the next 30 years.

Such policies would be hard for any government to implement, but politicians will not be able to avoid them forever. The government's grand ten-year strategic plan for transport is falling apart, and one of the reasons is its failure to address the pressure on roads.

In 2000, roads carried 666 billion passenger km (93% of the total) and 158 billion tonne-km of freight (90%). Rail carried only 7% of passengers and 10% freight. But total rail investment under the plan is three times that on roads. Stephen Glaister, a transport economist from Imperial College, says that it is impossible to justify this scale of rail investment in terms of efficiency or equity.

Why this obsession with rail at the expense of roads? John Dawson, policy director of the Automobile Association, believes that the country is in the grip of an anti-roads mania. “There is almost a religious belief that the masses should not drive around in motor cars,” he says. Whether or not that is fair, it is clear that road investment is judged by quite different criteria from that of rail.

David Newbery, professor of economics at Cambridge, believes that the transport investment is absurdly skewed at present. He points out that the M1 generates £1 billion a year in tax revenues; that the current value of the Treasury's investment in the M1 is £2.1 billion, so, without even getting into the question of the economic benefits to the country as a whole, the Treasury is getting a 40% annual return on its investment. Not bad.

Roads also do well on economic cost-benefit analysis. Improvements to the M1 top the list of big road projects, with benefits around 15 times the cost. Most road projects have cost-benefit ratios of between two and four.

The Strategic Rail Authority (SRA) claims the cost-benefit ratio of the upgraded East Coast main line is between one and two, but cost-benefit figures for other rail projects are mysteriously hard to come by.

The authority does not, for instance, reveal the ratio for the West Coast main-line upgrade, whose projected costs have tripled to more than £7.5 billion over the past five years, nor for the £4.2 billion Channel Tunnel rail link, whose tangible benefits fall so far short of its costs that the National Audit Office suggested that the government must be rescuing it for reasons of national pride not economics.

The discrepancy between the treatment of the roads and the railways shows up sharply in safety investment. A rail crash sends the media and the politicians into paroxysms of recrimination. Yet, while seven people died in the rail crash at Potters Bar, on average ten people die on the roads every day. The latest rail safety proposals for advanced signalling are projected to save 83 lives over the next 40 years at a cost of £45m per life saved. That is 100 times the level at which road-safety improvements are accepted by government as worth implementing.

Making sensible decisions on how much new road capacity Britain needs is hard. That is one advantage of tolls: they would demonstrate what people are prepared to pay. Lord Birt's solution may have fallen on stony ground but he has, at least, posed the right question.

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Railtrack

Make me an offer

May 23rd 2002
From The Economist print edition

Railtrack shareholders are set to make life miserable for the government

Get article background

ALL litigation is a gamble, but the 50-1 potential return to 250,000 shareholders of Railtrack who could bring an action against the government for misfeasance (abuse of public office) looks irresistible.

So far the government has stumped up nearly £500m (roughly £1 a share) to try to settle the dispute caused by its precipitate decision to put Railtrack into administration eight months ago. That has bought off the institutional shareholders, who hold three-quarters of the shares in the company. They are expected to vote next month at Railtrack's extraordinary general meeting to accept the government's offer. Together with other residual assets, all shareholders are now likely to receive about £2.50 per share, whether or not they take the government to court.

Individual shareholders believe, however, that they deserve more. So far 22,000 have put up £20 each for a fighting fund. Andrew Chalklen, chairman of the Railtrack Shareholder Action Group, is confident that many thousands more, including some institutions, will want to join in when they have seen its legal advice, provided by Michael Crystal, which is to be published next week.

The average holding in Railtrack is 1,000 shares, so the government's current offer is worth an average of £1,000 for each shareholder. As the current stake for a bit of the legal action is only £20, the attraction of further litigation is obvious. Even if costs escalate, as they almost certainly will, the risk-reward ratio should still look pretty favourable. The action group's valuation expert suggests the shares would be worth between £4.50 and £8.50 if the company had not been forced into administration. If a court plumped for £3.50, say, that would be another £1,000 for the average shareholder.

From the government's viewpoint, things do not look so good. Ministers have already had to compensate shareholders despite insisting that they would not use public funds for such a purpose. They now face the lengthy, sensitive process of disclosure. David Greene of Edwin Coe, the action group's lawyers, says he believes the documents will show that the aim of the government's policy throughout 2001 was renationalisation. Quite apart from the grilling the transport secretary, Stephen Byers, can expect to receive, the evidence of others, such as the rail regulator, Tom Winsor, will be uncomfortable. The government has already shelled out a lot of taxpayer's money to appease the City. It would not be surprising if it spent some more on avoiding further embarrassment.

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Benefits fraud

Jihad on the dole

May 23rd 2002
From The Economist print edition

Benefits fraud is getting more sophisticated. So are the snoops

SOME of the billions of pounds stolen from the benefits system each year have, it seems, been funding the *jihad*. Last November, a ring was uncovered which had been operating for five years through bank accounts set up by members of Supporters of Shariah, an extremist group. The group, founded by the Egyptian-born Sheikh Abu Hamza, has a branch at the Finsbury Park Mosque in north London. A Special Branch detective quoted at the time said: “We believe that some extremist groups have encouraged a large number of social security frauds across Britain to raise funds for their activities.”

Benefits fraud and error costs the Treasury £3 billion a year—not much less than Gordon Brown is raising through his latest tax increases—and although the biggest chunk of fraud by far is still individuals on the fiddle, major frauds committed by organised crime groups have recently raised the stakes. Several gangs have vacuumed millions from the system by stealing and creating identities, or intercepting and forging cheques.

The government wants people to take the issue more seriously. So do benefits investigators, who are fed up with being seen as stiff-necked busybodies or—worse—amateur detectives. “It isn't all screaming around in cars like the Sweeney,” Rick Hearnden, an investigator based in Birmingham, patiently explains. Mr Hearnden is a member of one of 14 crack teams which were set up last year to combat organised fraud. His group, he says, is trained in high-level surveillance, driving and interview techniques.

They will need all their new skills. The government has set itself tough targets for reducing fraud and error: 25% by 2004, 50% by 2006. It has had some success. Between 1998 and 2001, the number of prosecutions, cautions and penalties more than doubled. Over the same period, over-payment due to fraud and error in the two best-measured benefits, Income Support and Jobseekers Allowance, went down by 18%—though much of that came from stricter front-line procedures, and Income Support over-payments rose slightly last year.

Housing benefit, which is doled out by local authorities, has long been leaking like a sieve, but it also seems to be slowly on the mend. No one, though, knows much about fraud across the other benefits. They should. The Department for Work and Pensions spends £200m on its own anti-fraud measures and provides another £100m to local authorities; at least as much again is buried in the general budget. That's a whole lot more than they claw back; though Malcolm Wicks, the minister in charge of anti-fraud issues, points out that without strong deterrence measures, the £100 billion benefits budget might lose even more.

So far, then, so good-ish; but Richard Kitchen, the chief investigator, admits that future reductions may be tougher to achieve. Still, he has some tricks up his sleeve. This year, he is rolling out a system to prioritise the 600,000 annual referrals logged by his teams; fewer than a third can be followed up. Next year comes environmental analysis—comparing local incidences of, say, disability with claims statistics. And last month, new powers came into force which allow investigators to cross-check suspect benefit claims with records held by other government departments, bank accounts, utility bills and university registers.

Some people think those powers go a step too far. Elizabeth French, the Data Protection commissioner, objected strongly to the idea of relying on in-house approval for their use. She wanted such surveillance vetted by a watchdog. She lost. “We can't just leave the public safe open,” says Mr Wicks.

Civil libertarians might like to keep an eye on things. What Mr Kitchen really wants is better IT; the

department's computers are notoriously creaky, and he is jealous of the insurance industry's ability to carry out sophisticated risk profiling. Next up are more robust powers to exchange information with the Immigration Service and the Passport Office. And he has a “shopping list” of further demands.

But the way the benefits system is changing gives Mr Kitchen good grounds for arguing for more powers. Payments are moving on to an automated credit transfer system. Paying money directly into bank accounts should be safer than bunging cheques in the mail. But if fraudsters get on the books under false identities, they may prove harder to budge: Mr Hearnden and his colleagues will no longer be able to nab them at the post office counter. Going high-tech may save the system lots of money in lower administration costs, but it may help the fraudsters too.

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Bagehot

The Tories' temptation

May 23rd 2002
From The Economist print edition

Europe's right is on the march against immigration. Why isn't Britain's Conservative Party?

Get article background

IF YOU want some idea of how the Conservative Party wishes to be seen these days, visit the homepage of its official website. Pride of place this week is given to four “news” stories about the recent doings and utterances of the Tory leadership. In one, the party's education spokesman, the thoroughly nice Damian Green, sets out to show that his policies for schools are, above all, aimed at helping “our most vulnerable children”. A second tells of how the thoroughly earnest David Willetts, who speaks on work and pensions, spent a night with down and outs. He explained: “Some of our most vulnerable citizens continue their struggles to find shelter for the night, and I wanted to see at first hand the situation they face.” The third was a picture story about the thoroughly bald leader of the party, Iain Duncan Smith, playing a five-a-side football match wearing rather tight red football shorts. But not just any old match; one held to raise money for the Refugee Council, a charitable body that helps, among others, asylum-seekers. The fourth was an item about Mr Duncan Smith making a speech in the poor London borough of Hackney during which he proclaimed: “My mission for the Conservative Party is to provide equal opportunity in our schools for all our children, particularly the most vulnerable, wherever they live, however much their parents earn.”

Traditional Tories are baffled by much of this. The object of their greatest bewilderment is the shadow home secretary, Oliver Letwin. Mr Letwin, or “Oliver” as he is known at www.conservatives.com, has won much admiration among the chattering classes, Bagehot among them, for the civilised intelligence he has brought to the inflammable issues that are currently marching together across continental Europe under the single banner of “security”.

At a time when parties of the right are enthusiastically exploiting anxieties about violent street crime and the impact on cultural identity of seemingly unchecked immigration and asylum-seeking, Britain's Tories prefer not to talk about such things; when they do, in the words of one Downing Street adviser, they appear determined to “out-liberal” Labour. Admittedly, that's not hard, but that it should be the government which is making nearly all the running on these issues is frustrating to many Tory supporters, including a good many MPs, some of whom have signalled their displeasure to the chief whip, David Maclean.

So far, the unrest in the Tory ranks is muted, but parts of the Tory press are less inclined to hold back. Kelvin McKenzie, a former editor of the *Sun* newspaper that did so much to sustain the Conservatives during their last 18 years of office, recently described Mr Letwin as being so left-wing that he would not make it into a Blair cabinet. “When”, asked Mr McKenzie in a recent article, “was the last time that the Tories could not look to their own home secretary to clear the streets of the human excrement that makes walking home at night more dangerous than staying at the Ramallah Hilton?”

Meanwhile, the awful but agenda-setting *Daily Mail* is keeping up a relentless stream of stories about hordes of “bogus” asylum-seekers and illegal immigrants from the controversial camp at Sangatte near Calais pouring out of the Channel tunnel each day, while columnists, such as Melanie Phillips, berate the Tories for their feebleness in the face of ineffectual government policies. Last week, Ms Phillips wrote: “Britain is in the grip of a deepening crisis over asylum-seekers. Yet Duncan Smith's response is to kick a ball around with them.” When it came to “the defence of national identity and culture”, the Tories “have their heads stuck as far below the parapet as it is possible to go”.

Oliver Letwin, Labour's friend?

The government, of course, is profoundly grateful for the fastidious Mr Letwin's unwillingness to grandstand in the way that the *Daily Mail* would like. One close colleague of the prime minister's, amazed that the Tories are not giving the government a much harder time, prays daily for Mr Letwin's preservation. Although Mr Blair has this week been pushing for asylum and immigration to be made the main topic at the forthcoming Seville summit, he and the home secretary, David Blunkett, know, tough though they sound, that the politics of race and crime is treacherous ground for Labour.

Yet despite the pressure it is coming under, the Tory leadership is in no mood either to ditch Mr Letwin or to retreat from the compassionate conservatism it is striving, albeit with some false notes, to articulate. The line is that Mr Letwin is doing an excellent job in helping to persuade people that the party is both sensible and decent. The rightwards lurch on the continent is “background mood music” that should help eventually, but not yet. Shadow cabinet members are anyway suspicious that the government may be laying a trap when it whispers that the Tories are letting it off lightly. According to this analysis, it's in the government's long-term interests to lure the Conservatives back to a more strident agenda. After all, when William Hague, the former Tory leader, abandoned a liberal agenda for shrill right-wing populism, it didn't work. He may have shored up the party's core vote but he failed to extend the Tories' appeal.

Mostly, this is sensible. If the Tories are ever to recapture and redefine the centre-ground of British politics where elections are won, it will be because of disciplined adherence to a long-term strategy. If the party's nastier elements feel marginalised as a consequence it will be a sign that the strategy is working rather than the reverse. But there is also some danger. *Pace* New Labour, a party that goes too far in suppressing its natural instincts risks losing its vigour. Charming though Mr Letwin's constructive and politely probing style may be, the Tories must take care not to look as if they do not quite trust themselves to speak out on one of great issues of the day using language that is humane yet robust enough for ordinary voters to understand.

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Pricing strategies

The price is wrong

May 23rd 2002
From The Economist print edition

Clever companies are finding new ways to boost prices. But most firms are still getting it wrong

FOR a glimpse of today's pricing wars, try booking an air ticket on Expedia, a travel website. Recently, a ticket from Toronto to San Francisco on Expedia's Canadian website was listed for around $750. On the American site, the same trip cost about half as much. But do not try to use your Canadian credit card to buy the cheaper seat—the American website won't take foreign plastic. Your American office would have to buy it and post it to you.

That is a minor inconvenience, compared with the other restrictions that have plagued travellers, such as minimum-stay requirements and massive premiums for flexibility. Airlines and hotels, with their fancy "yield-management" systems, have long led the way in sorting customers into categories, based on their willingness to pay. But now, thanks to downward pressure on prices, other industries, from retailers to chemicals, are catching on and trying to become as sharp at varying their prices as the airlines.

The trick is to do it without annoying customers. Most bosses assume they can change prices often and with little effort. But, says Mark Bergen, a professor at the University of Minnesota, this ignores the costs of management time, as well as the risk of alienating some customers while soothing others. Once a bad price is established, he says, it can be devilish to fix.

Mr Bergen argues in a recent article* that chief executives need to pay more attention to pricing. He sees a need to go beyond today's tactics, and to invest in "pricing capital"—including better computer systems as well as price-savvy managers. These may be hard to find. Few business schools teach pricing as a discipline; instead, they see it as a branch of marketing. He cites Polaroid, which went bust last year largely because it failed to price its digital-photography products properly.

Contrast that with the American subsidiary of Roche, a Swiss drug company. One of its top managers, Ron Andrews, arrived to find prices set deal by deal, with wide latitude given to the company's salesmen. He introduced software for every salesman's laptop computer to provide instant—and profitable—price quotes in the field. The hard bit, of course, is to get the salesmen on board. To help, he created a new post of director of pricing strategy.

Raising prices is likely to remain tough even as the world economy rebounds. Inflation is likely to remain low in rich countries, for several reasons. Globalisation has increased the number of competitors. The Internet has made it easier for buyers to shop around and to compare prices. The euro has made prices more transparent in Europe, even if consumers worry that retailers have used its introduction to mark up their goods (see article). And big buyers, such as Wal-Mart, are squeezing ever more from their suppliers. The days of annual (upward) revisions to price lists look to be over.

And yet most bosses still worry more about their costs than about the prices they charge. One survey found that managers spent less than 10% of their time on pricing. Henry Vogel of the Boston Consulting Group likes to remind clients that raising prices by 1% can boost profits by up to four times as much as a 1% cut in overheads and fixed costs.

Today's managers, unlike those emerging from previous recessions, have no end of fancy technology to help them. Supermarket chains, for example, can quickly and easily track customers' “elasticity”—how their buying habits change in response to a price rise or a discount. But although firms can now measure this sort of thing in a more sophisticated way, basic rules of thumb are still the most common way of setting price.

A popular—and rather crude—technique is hidden or “stealth” increases. Mr Vogel points to car companies, which may charge extra for features such as anti-lock brakes and passenger-side airbags, instead of offering them as standard features. A slightly more subtle approach is to offer a huge menu of margin-enhancing financing schemes. Give your customer plenty of choices, and he will struggle to find the deal with the cheapest price.

Better organisation has helped some consumer-goods companies to set prices. Martin Smith of Whirlpool, an American white-goods maker, says his company overhauled its pricing two years ago by thinking of prices themselves as a product, much like a dishwasher. Despite the recession, when steep price cuts looked like the only way to go, Whirlpool last year reduced the frequency of its discounts, which it says are costly to communicate to salespeople, and can confuse customers if they are changed too often.

Industrial markets are even more demanding. Dow Chemical, operating in the dull but brutal commodity-plastics market, now splits out and prices separately the add-on services that it once provided in a lump along with its products. For a range of fees, it has begun offering faster delivery, pay-per-use technical support and consultants to help customers use their plastics more efficiently.

Pricing across national borders is fraught with its own pitfalls. Multinationals such as IBM and Coca-Cola like to drive hard bargains with their suppliers, seeking low and consistent prices worldwide. This can become a problem when some suppliers hawk their wares at steep discounts in poor countries such as China, while keeping prices high in richer markets.

George Cressman of the Strategic Pricing Group, a consultancy, has seen a number of American companies raise the hackles of multinational clients who learn about these sweetheart deals. He recommends that exporters make sure that price differences in rich and poor markets reflect real differences in quality, or differences in the extra services attached. The worst approach, he says, is to try to keep prices secret from customers. Nowadays, that is more likely to lead to red faces and lost contracts than bumper profits.

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*“Pricing as a Strategic Capability”. MIT Sloan Management Review. Spring 2002. Shantanu Dutta, Mark Bergen, Daniel Levy, Mark Ritson and Mark Zbaracki

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Prices in the euro area

Hold the foie gras

May 23rd 2002 | FRANKFURT, PARIS AND ROME
From The Economist print edition

Has the introduction of the euro been an excuse to raise prices?

EPA

That can't be right

SO MUCH for the benefits of a single currency: over the past year, at a time of negligible inflation in Europe, daily newspapers in Italy have raised their cover prices by around 18%. At a restaurant in Rome, a plate of spaghetti carbonara costs almost 20% more these days. Ditto the foie gras and vegetables bought in a street market in Paris. These increases have mostly come since January 1st, when euro notes and coins were introduced. Despite the reassurances of politicians of all hues, has the euro provided an excuse for unwarranted price hikes?

In Germany, central bankers have staunchly defended the line that the euro has, if anything, reduced prices. But price increases in some areas have been so blatant that the government has finally come clean. Hans Eichel, the finance minister, has admitted that consumers are indeed paying higher prices “in some sectors”, notably in food and service industries. Sceptical consumers have dubbed the new currency the “teuro”, a play on the German word for expensive. *Bild*, a German tabloid, has appointed a euro “sheriff” to hunt down price-gougers.

Down with the euro then? Unfortunately for eurosceptics, the picture is murkier than at first appears. General price inflation in Europe is hardly at shocking levels, despite big increases in the prices of basic commodities such as energy, which have nothing to do with the euro. In France, for example, the consumer-price index has barely moved since January, and is only a little up on a year ago. In the Netherlands, France and Italy, leading retailers were co-opted into freezing prices during the first few months of the new currency.

Moreover, even acknowledged price increases are not always what they seem. From Valencia to Vienna, it is still too early to separate the effects of the euro from price changes that, year after year, follow the cycles of food and goods production. Statisticians say it will take them a while yet to sort out what is genuinely due to opportunistic price hikes by retailers.

One thing is worth noting, however. Central bankers and politicians who devised the euro have no right to complain if prices are rising. They planned the introduction so that the big costs fell not on financial institutions, but on retail businesses with tills full of cash. It would be small wonder if the result were higher prices at many of those tills.

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German energy mergers

Swap shop

May 23rd 2002 | FRANKFURT
From The Economist print edition

E.ON takes another step towards taking over Germany's biggest gas company

ONLY in July will Germany's government rule whether E.ON, the country's biggest energy company, may take over Ruhrgas, its dominant gas supplier. But E.ON seems confident. On May 20th it said that it would buy an 18.4% stake in Ruhrgas from RAG, a coal-and-chemicals firm in which E.ON is already the largest shareholder. With the proceeds, worth *euro*1.9 billion ($1.7 billion), plus *euro*2 billion in borrowed cash, RAG will buy just over half of E.ON's listed chemicals subsidiary, Degussa, by 2004.

E.ON needs special approval from ministers to buy Ruhrgas because in January the Federal Cartel Office, Germany's anti-trust authority, ruled that its plan to acquire 60% of the firm should be blocked. On May 21st the Monopolies Commission, whose four members advise the government in such cases, backed the cartel office.

Pipe dreams
Top German gas companies by sales
KWh bn, 2001

Ruhrgas	601
RWE Gas	220
Verbundnetz Gas	154
WINGAS	121
E.ON Energie	96

Source: Company reports

Ruhrgas, the commission says, would surely be the preferred supplier for E.ON's gas-distribution business, closing out competitors. Ruhrgas supplies 150-200 local energy distributors in which E.ON has stakes. A merger would also blunt Ruhrgas's incentive to compete with E.ON in serving customers directly. Because gas is increasingly being used to generate electricity, buying Ruhrgas would also strengthen E.ON's hold on the German power market. The commission even dismisses the idea of approving the deal with conditions attached.

Ministers are, however, free to disregard the commission's opinion. Its advice has been rejected before, though never since 1989. Although the government will have its work cut out to come up with a convincing rebuttal of the commission's arguments, it may let the deal through anyway. The government has seemed sympathetic to E.ON's plans from the outset. That impression remains, even though the economics minister, Werner Müller, a former power-industry executive, has handed responsibility for the final decision to his deputy. Moreover, this week's swap between RAG and E.ON is conditional on approval for the Ruhrgas deal, and politicians have an interest in its success.

That is because the swap strengthens RAG's shift away from its origins in coal-mining, which still accounts for 20% of turnover—and for which the firm will receive *euro*9.6 billion in subsidies between 2002 and 2005. Because of these subsidies, any big transaction involving RAG has to be approved both by the government of its home state, North Rhine-Westphalia, and by the federal government. The swap also ensures that Degussa, which employs nearly 14,000 people in the state, stays in German ownership.

The deal with RAG marks another step in E.ON's sell-off of its non-energy businesses. This is taking place mainly for strategic reasons, but also for regulatory ones: E.ON has ambitions in America, where parents of regulated energy utilities must themselves be predominantly energy suppliers. Until last April, when it announced the purchase of Powergen, a British company that owns a utility in Kentucky, E.ON had counted chemicals as a core activity.

E.ON's concentration on energy is to be welcomed, and there is nothing wrong with its having international ambitions. Quite rightly, though, both the Monopolies Commission and the cartel office see no reason why this should come at the expense of competition at home. The question is: will ministers agree?

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Computer Associates

The Wang clan cornered

May 23rd 2002
From The Economist print edition

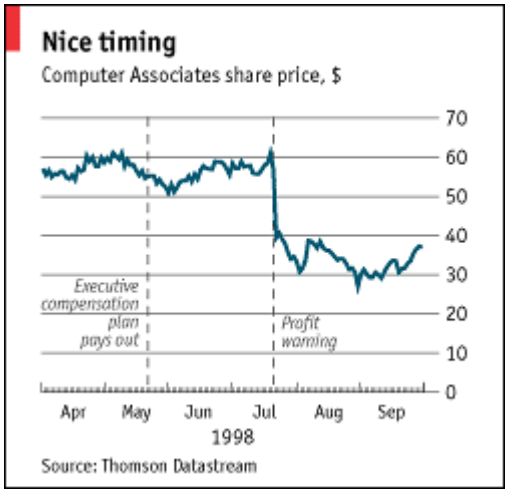
The past returns to haunt one of the world's largest software companies

MAYBE Charles Wang's conversion came when he was described by a rival in a glossy business magazine as a “scum-sucking competitor”. Maybe the software and services company he founded, Computer Associates, found that its strategy of buying other firms, sacking everybody and enforcing software-contract rights had run its course. Whatever the reason, Mr Wang has been paying more attention to what he calls the “public relations” aspects of running a big company recently. He has stepped up donations to children's charities, bought an ice-hockey team, and even stopped suing his biggest customers with abandon. Yet the more Mr Wang tries to put his bad-boy reputation behind him, the more his chequered past hangs over him.

All sorts of skeletons are rattling around Mr Wang's closets at the moment. On May 15th Computer Associates said that an informal investigation of its accounting practices by the Securities and Exchange Commission (SEC) and the Justice Department had deepened. The company says the SEC is interested in its “historical revenue recognition policies”. In 2000 Computer Associates changed both its auditor and the way it accounted for software contracts. Two years earlier, the company had given its top executives $1.1 billion-worth of company stock, tied to the performance of the share price. The *Wall Street Journal* has reported that the SEC is also interested in this $1.1 billion payout. Computer Associates will not comment.

That $1.1 billion was immodest even by the standards of the late 1990s. Sure enough, a rash of shareholder lawsuits has followed. Investors have been especially irked by the fleeting nature of management's achievements.

The compensation plan was designed to pay out if the share price stayed above $53.33 for more than 60 days in any 12-month period. This milestone was reached on May 21st 1998 (see chart). Exactly two months later, Computer Associates issued a profit warning and its share price collapsed. The shares now trade below $20. Executives have had to return more than $250m of their award, after one lawyer noticed that Computer Associates had failed to insert into the wording of the compensation plan a standard clause allowing the payout to be adjusted for stock splits.



Mr Wang must also deal with the imminent return of Sam Wyly, another software mogul with sharp elbows, who last year donned the garb of good corporate governance to launch a proxy fight for control of Computer Associates' board. Though Mr Wyly won only 25% of the vote, his vehicle, Ranger Governance, is now preparing for a rematch. Last year's tactics, says Ranger's Steve Perkins, did not work: Ranger “muddied the waters” by attacking Computer Associates' sales and customer-service practices. Next time, Ranger will aim its guns solely at the board, which Mr Perkins says lacks independence. He adds that Ranger is encouraged by what it has been hearing: anxiety is spreading from Computer Associates' clients to its shareholders.

That seems about right. The lawsuits grow, the SEC probe widens and the company's accounting practices, says John McPeake of Prudential Securities, raise suspicions that Computer Associates is a “financial fugitive”, fleeing a worsening trading record by changing the way it presents its numbers. The company recently stopped disclosing figures that would allow investors to compare its performance now with its performance before the accounting change in 2000.

Whether the time is yet ripe for change at the top, however, is still not clear. Computer Associates continues to fight its corner. Last month it announced the appointment of two new, independent directors to its board. More importantly, Mr Wyly does not seem such an ideal champion of shareholder rights, as he has had exactly the same sort of run-ins with shareholders and regulators as Mr Wang.

Walter Haefner, a reclusive Swiss investor who, with a stake of about 20%, is Computer Associates' biggest shareholder, continues to reject Mr Wyly's attempts to woo him. In the 1970s, Mr Haefner shopped Mr Wyly to the SEC for alleged misdemeanours. Mr Wyly later settled the charges. He claims he is a reformed man. So does Mr Wang. The SEC could yet decide the matter. In the meantime, shareholders are sitting on their hands.

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Data storage

Going soft

May 23rd 2002
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With technology spending on hold, the storage business is shifting gears

IT WAS supposed to be recession-proof. Storage firms, which sell the huge, refrigerator-sized boxes used by companies to house computer data, thought that their business would be immune to the high-tech squeeze. Even as the economy faltered, they noted, the volume of e-mail and other corporate data continued to grow. Yet storage ended up suffering along with the rest of the technology industry. Worldwide spending on storage fell by 8% in 2001, compared with declines of 12% for PCs and 11% for servers. EMC, the biggest storage firm, saw revenue fall by a fifth.

Now, with spending cut and firms trying to squeeze more out of their existing equipment, the storage industry is changing. Shifting boxes is out; fancy management systems to make storage easier to operate and maintain are in. The action, in short, is not in hardware, but in software. While large firms' spending on disk-based storage this year will be flat, at around $26 billion, according to IDC, a market-research firm, spending on storage software will grow by 16%, to $6.5 billion.

The demand for software is driven both by the need to cut costs and by the tumbling cost per megabyte of storage—down from 21 cents two years ago to below five cents today, says Tony Prigmore of Enterprise Storage Group. A rule of thumb in storage is that when a firm doubles its storage capacity, it must also double its support staff. Brian Truskowksi of IBM suggests that the initial hardware purchase accounts for a mere 10% of the cost of a storage system. As capacity grows and budgets shrink, firms have to manage more storage without extra staff, and to do that they need clever software. Last year's terrorist attacks emphasised the importance of proper back-up, disaster-recovery and “business continuity” systems, which are heavily dependent on software too.

The storage-software industry is dominated by EMC (the market leader in hardware) and Veritas. But dozens of start-ups have entered the field, and established firms have expanded their activities. IBM and Microsoft have both set up new storage-software divisions this year. For hardware vendors, moving into software has obvious appeal: the margins in software are much higher, says James Staten of Sun Microsystems, which along with HP and EMC has been buying small firms to beef up its storage-software business.

The challenge now is to create software that can manage complex combinations of storage equipment from many different vendors. To provide seamless management, storage software must be able to talk to hardware from rival vendors. Yet vendors are often reluctant to reveal the technical information needed for other firms' software to work with their hardware.

The result is a familiar tension between proprietary and open standards. EMC hopes that its WideSky software, endorsed by Oracle, Microsoft and others, will emerge as the de facto standard. Its smaller rivals, notably IBM, Hitachi and Sun Microsystems, are understandably keener on a new open standard for storage management, called Common Information Model (CIM). Without such common standards, grumbles Mr Truskowski, companies that choose one storage vendor then find themselves locked into that firm's products. For its part, EMC claims that it is fully behind CIM and will incorporate it into WideSky once it becomes established.

Vendors including EMC, Veritas, Hitachi and Sun, have developed CIM-compliant products that will soon go on sale under the name Bluefin, an industry-wide initiative announced on May 22nd. But its success depends on persuading buyers that Bluefin products from different firms will work together reliably.

Disagreements over standards aside, however, firms in the storage industry agree that it is still a good business. Don Swatik of EMC says the long-term trend—away from attaching storage devices directly to

large computers, and towards the modern “network-storage” model—will provide plenty of opportunities for vendors over the next few years. Another promising area is specialist systems for storing “fixed” content, such as X-ray images, cancelled cheques and photographs, which are stored but never altered.

The days of 60% margins on high-end storage systems may be gone, but Darren Thomas, a former head of storage at Compaq and now chief executive of Zambeel, a start-up, says that storage remains the most durable part of the technology industry. “I've been in storage since before it was cool,” he muses, entirely seriously, and with a touch of pride.

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American steel

Helter smelters

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From The Economist print edition

Things are looking up, but tariffs are not the main reason

IN THE two months since America slapped tariffs of up to 30% on steel imports, President George Bush has had to put up with all sorts of threats and ridicule for saving America's steel industry. Now comes the sad news that Mr Bush's tariffs may have come too late. Big steel, it turns out, had already saved itself.

Since the market hit bottom in late December, the price of a ton of hot-rolled steel has risen by more than 50% (see chart). In the past six months, shares in such firms as US Steel and AK Steel have nearly doubled. Capacity gluts have turned into supply shortages. Only trade barriers could prevent “a disaster that has already launched a parade to oblivion for virtually every American steel maker,” thundered Leo Gerard, president of the United Steelworkers of America, in February. Now, those same steel firms are returning to profitability with unseemly haste.

Mr Bush's tariffs have, of course, played a part in this rescue. But Mark Parr of McDonald Investments, an investment bank, ranks them only third or fourth in importance. First, says Mr Parr, a string of bankruptcies last year reduced supply at home. Domestic production of flat-rolled steel fell by about a quarter, for instance. Second, imports also fell sharply last year, thanks in part to a welter of anti-dumping duties. And third, demand for steel has stopped shrinking, and in the most crucial part of the market is even beginning to grow: Detroit is making more cars.

The result? America now finds itself short of steel—by 8.5m tons, according to Mr Parr's arithmetic. Any offers?

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Low-cost airlines in Asia

Taking off, sort of

May 23rd 2002 | HONG KONG AND SYDNEY
From The Economist print edition

No-frills carriers are doing well in America and Europe. Will Asia follow?

Reuters

Virgin territory

NOW that easyJet has taken over Go, creating Europe's largest low-cost airline, it is almost time to declare no-frills discount airlines a mature industry in Europe. In America, where Southwest Airlines has been flying since 1967, the industry has been thriving for even longer. Among the big-money markets, that leaves only the Asia-Pacific region. Will the low-fare trend spread there as well?

At first glance, it looks that way. A flock of niche airlines has recently taken to Asia's skies. In Malaysia, Air Asia has relaunched as a cheap and trendy alternative to Malaysian Airlines, the flag carrier. In the Philippines, Cebu Pacific has expanded into some regional routes. Thailand has Bangkok Airways, which flies to tourist destinations that Thai Airways does not serve. In Australia, Richard Branson's Virgin Blue is expanding furiously. And Australian Airlines, a subsidiary of Qantas, the country's flag carrier, will start flying regional routes in October.

On closer scrutiny, however, it becomes clear that most of these carriers are anything but no-frills. Bangkok Airways provides better and costlier in-flight service (including cappuccinos) than Thai Airways. Likewise Cebu Pacific. Denis Adams, chief executive of Australian Airlines, goes out of his way to distance himself from the no-frills concept, insisting that the airline is “a full-service leisure carrier”. That leaves only Air Asia, Virgin Blue and Skymark, a low-cost Japanese airline.

There are good reasons, moreover, why their ranks may not swell. Low-cost economics rely on servicing high-density, short-haul routes. Europe and America have lots of cities relatively close to one another that can be linked profitably in this way. Asia is different. Its big cities tend to be separated by vast distances, and new carriers also have to contend with tougher restrictions on international air-rights.

This makes the emergence of a genuine regional low-cost airline in Asia unlikely. But what about domestic business models? Two of Asia's richest economies, Hong Kong and Singapore, have only one airport each. Most others have little more to offer. Only three big markets have enough domestic destinations close enough together to support a low-cost airline.

Japan is one. A second is Australia. David Huttner of Virgin Blue is enthusiastic about the market's prospects, once New Zealand is included. Except for Perth and Darwin, most cities in Australia could qualify as short-haul destinations. The domestic market, which became a monopoly operated by Qantas after the collapse last September of its only rival, Ansett, is hungry for a low-cost alternative. Mr Huttner thinks that Virgin Blue can raise its market share from 15% now to 50% by 2006.

What about the third market with a decent number of short-haul destinations: China? After decades of central planning, followed by a burst of market anarchy after an initial round of reforms in the 1980s, it now has two dozen airlines crowding into the main routes. Almost all make losses. The government is now planning a second round of restructuring—to merge ten state-owned carriers into three—but two aeroplane crashes in the past two months have put the reforms on hold. It may be some years before China is ready for its own easyJet or Southwest.

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Japan's trading houses

Middlemen in a muddle

May 23rd 2002 | TOKYO
From The Economist print edition

The big are still strong, the small looking weaker than ever

WHEN news breaks overseas and there are no staff reporters on the ground, what is a television station to do? When a light aircraft crashed into a skyscraper in Milan last month, NHK, Japan's biggest television network, which has no bureau in Italy, found itself caught short. So it called the local branch office of Marubeni, a Japanese trading house, for news updates, while a team of reporters jumped on to a flight bound for Milan.

With their vast networks of offices around the world, the trading houses have long played a role in helping Japan to keep track of international events. As middlemen, they traditionally bought and sold raw materials, financed building projects and sold finished goods around the world, earning fat commissions. They carved out a strong foothold in South-East Asia, beginning when Japan paid war reparations in the form of new equipment and factories that trading houses helped to supply or build. At home they enjoyed almost unlimited credit from banks, and made easy money by channelling funds at high rates of interest to small companies that banks could not be bothered with.

Those good days are over. One reason is a combination of the Internet and growing competition, which has led many manufacturers to start weeding out middlemen. Debt-ridden banks have also cut their ties. Weaker trading houses have huge piles of debt that have sent their credit ratings into junk territory. On May 14th Marubeni announced that it had fallen into loss in the year to March 31st. Two days later Nissho Iwai, another trading house, said its group net profits had fallen by 94% to ¥1.2 billion ($9.6m).

The industry has become polarised. The three biggest houses, Mitsubishi Corporation, Mitsui & Co and Sumitomo Corporation, are doing better than their smaller rivals. Historically, the trio sat at the centre of powerful *keiretsu*, or corporate families, that dominated most industries. These families supplied them with a steady stream of lucrative business and handy overseas contacts.

These perks have become more precious now that times are hard. Mitsui made record net profits of ¥55.4 billion in the year to March 31st, thanks in part to brisk trading in exports. Sumitomo's net profits also rose, by 12.1% year-on-year. And although Mitsubishi, the industry leader, saw its profits fall by a third to ¥60.2 billion (after a record result the year before), it still has plenty of capital to fall back on. The big three have shut down or restructured unprofitable businesses more swiftly than their debt-laden rivals. They have also worked hard to reinvent themselves, moving into new areas such as outsourcing services.

Those with less capital have had to make the transition even as they try to clean up their books. The struggle continues: Marubeni has only just worked out with the Indonesian government a scheme to save Chandra Asri, a petrochemical project that has bled red ink for years, and in which Marubeni has a 28% stake. Kanematsu, another middling trading house, has opted to sell or pare most of its operations and to become a narrowly focused trading boutique. Nissho Iwai is also pruning its operations.

Itochu's restructuring efforts have been the most successful so far, largely because it started early. It earned ¥284 billion from the well-timed sale of shares in Itochu Techno-Science, a systems vendor that listed on the stockmarket during the technology boom, and used the money to clean up its books. Others have paid dearly for missing the technology boat: Nissho Iwai's high-tech subsidiary, ITX, flopped when it listed on Nasdaq Japan last December. Marubeni had to postpone plans to list Vectant, its telecoms subsidiary.

If only that were all. Marubeni's drive to improve its operations suffered another blow in March when Marubeni Chikusan, a subsidiary, was caught mislabelling 113 tons of Brazilian chicken as higher-priced

Japanese poultry. If the troubled small and mid-sized trading houses really want to close the gap with the big three, they will have to do better than that.

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Face value

Onwards and upwards

May 23rd 2002
From The Economist print edition

Larry Silverstein hopes to redraw the world's most famous skyline

AP

"THERE is not a doubt in my mind Wall Street will come back," says Larry Silverstein, as he sketches out an evolving vision for the site of what was once the World Trade Centre. "There will be the best buildings in the world, with the best environmental systems, the best safety, the best communications..." and so on.

A friend of the 71-year-old developer says that Mr Silverstein responded to the destruction of Seven World Trade Centre, a 47-storey building that he completed in 1987, and the 110-storey twin towers across the street, which he took over early last year through a lease, by steadily becoming younger and more energetic. He embodies an odd spirit that has swept through New York. A sense of devastation from the attacks remains palpable, but so too is a sense of rejuvenation. It is evident in the ceremonies being held to dedicate new fire-fighting equipment; in the joy expressed when a business, be it as small as a flower stall or as big as American Express, returns downtown; and, most of all, in the speed and efficiency of the clean-up itself.

On May 30th, an empty stretcher will be carried from Ground Zero, symbolising an end to the clean-up. In what must be a first in a city with a long history of botched public works, the task will have been completed months ahead of schedule and hundreds of millions of dollars below estimate. Already, the steel vertebrae of a new tunnel for the demolished lower end of the city's Westside subway line are emerging.

The next phase of the reconstruction will hinge more on Mr Silverstein than on anybody else, but he must also satisfy a long list of interested parties. The potential obstacles are too many to count. More than 1,800 bodies have not been recovered, making an already sensitive site a vast graveyard for a constituency, the relatives of the deceased, that nobody wants to offend. Some believe it should remain only a memorial. Others want a bold statement that punches through the clouds. Most likely, the 16-acre site will be divided roughly in half, to allow for both redevelopment and reflection, with some space lost for the reintroduction of roads that the city surrendered when the twin towers were built three decades ago.

Many fret that progress is already stalling. The number of political entities with some say defies belief. The site falls under the jurisdiction of the state, the city, the Port Authority of New York and New Jersey, and a specially created Lower Manhattan Development Authority, to cite but a few. To make matters more complicated, whether there is $3.6 billion or $7.2 billion available for redevelopment is the subject of an insurance dispute over whether the twin towers were brought down by one event or two.

And yet, behind this maelstrom, the most striking aspect of the reconstruction has been the lack of discord in a city that, before September 11th, would grab any excuse for a protest. Work has continued around the clock and everybody with an opinion is being heard—often, it seems, by Mr Silverstein himself. If he brings an essential talent to this task, it is a proven ability to get things done.

Seven World Trade Centre, for instance, was begun with no tenant in 1984, just as the financial markets were shaking off the grim 1970s, and completed in 1987 just after the stockmarket crashed. Drexel Burnham Lambert, an investment bank, agreed to occupy the building, only to fall prey to fatal legal woes days before the lease was due to be signed. Mr Silverstein survived because his financial structure was sound and the building useful, and because he had his share of luck.

Block by block

Mr Silverstein's education in real estate came from renting lofts in the bedraggled lower Manhattan textile district. Eager for a better opportunity, he met Lawrence Wien, a modest but extremely clever lawyer who had helped Harry Helmsley buy the Empire State building, among others, by arranging syndications. Mr Silverstein arranged his own first syndicate for a small building in 1957 by raising $200,000 in tiny lots from existing clients, and then went from one bank branch to another to borrow more.

The deal succeeded and Mr Silverstein was able to raise more for his next effort, and then more still for subsequent ones. The World Trade Centre, America's largest commercial structure, was a culmination. Mr Silverstein was in the process of moving his office to the 91st floor of the north tower when the aircraft struck three floors below. Four of his employees died. Seven World Trade Centre survived the initial attack. When the smoke cleared briefly at noon, however, Mr Silverstein could see from his office in midtown that the building had caught fire. By 5pm it had collapsed. “When I saw it go down,” Mr Silverstein says, “it did not take long for me to say: put it back up.”

Underneath Seven World Trade Centre was a power sub-station crucial to lower New York. Since its loss, the city has been running off emergency extension cords. Reconstruction cannot come soon enough, and Mr Silverstein is happy to oblige. A new foundation will be poured in June, with the power station, comprising the first ten floors of the new building, due to be completed next year, and the rest of the glass and steel tower by 2005. This is a rare opportunity for a builder to rebuild, correcting past mistakes, says Mr Silverstein. “It will be beautiful.”

Even under the best of circumstances, work on the former twin-towers site will go more slowly. Visible activity will soon pause, though planning and design continues. The massive area below street level—almost 3m square feet, including a huge train station—will not be rebuilt until 2005. Only then, says Mr Silverstein, will buildings once again emerge, maybe as many as six; finishing the site will require a further five years. He will then be 81 and, he says, perhaps ready to retire.

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Media conglomerates

Tangled webs

May 23rd 2002
From The Economist print edition

Zade Rosenthal

Massive, widely spread media groups are in disgrace. But their strategy can work—if spun in the right way

SUMMER in Hollywood begins with the race for the season's blockbuster. This year there are two contenders: “Star Wars: Episode II—Attack of the Clones”, which took $80m in America on its opening weekend; and “Spider-Man”, which sold a record-breaking $115m-worth of tickets in its first three days in America. As the action figures and lunch-boxes are swept from shop shelves in the inevitable Star Wars and Spider-Man crazes, this pair of films might look like typical products of the mighty marketing machines that lie at the heart of today's media conglomerates.

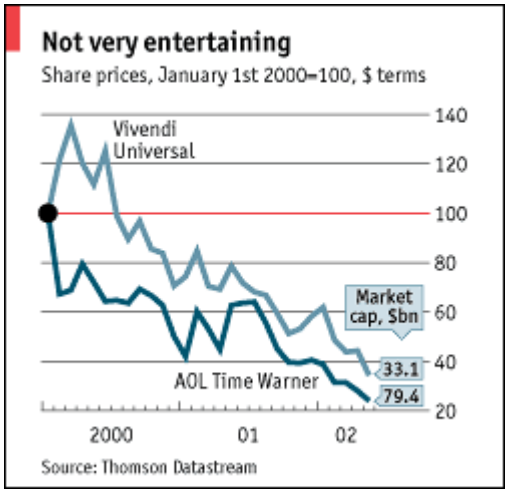
Yet, oddly, both were released by media groups that do not fit strictly inside the conglomerates' inner sanctum. Sony, whose Columbia TriStar made “Spider-Man”, may be a films-to-electronics giant, but it lacks any of the American broadcast, cable or Internet distribution that are held to be critical to the promotion of content these days. “Attack of the Clones”, though distributed by 20th Century Fox, part of a conglomerate, was made by LucasFilm, an independent studio.

These successes from outside the core media conglomerates come at a time of revived scepticism about the very notion of such integrated groups. A couple of recent headlines sum up the mood: “Big Media Mergers Raise Big Doubts: Is ‘Synergy' Achievable—or Even Desirable?” (the *Washington Post*); and “The Big Fix: Suddenly, the turn-of-the-millennium lust for media-world consolidation seems absurd” (*New York* magazine).

Part of the disillusion reflects gloom over the groups' share prices. The markets have battered the media giants, taking aim particularly at AOL Time Warner and Vivendi Universal (see chart). Each of these has had to make vast write-downs of assets bought at inflated prices at the height of the media and Internet bubble. Shareholders who turned up to last week's AOL Time Warner annual meeting—at which Jerry Levin, the man who engineered the merger of Time Warner with AOL in January 2000, handed over to Richard Parsons—were livid. “We were conned,” fumed one. Investors in Vivendi have given its boss, Jean-Marie Messier, an even harder time. Its American shareholders mutter darkly about whether he has a future in his current job.

Another part of this growing clamour is to do with inflated expectations about the potential of these groups. The disillusion is embodied by AOL Time Warner. Two years ago, when AOL cleverly took advantage of its extravagant share price to combine with

Time Warner, Mr Levin proclaimed “a new paradigm” in media. It was not just the addition of a small new-media distribution channel to a vast group of old-media assets, but a fusion of equals to bring about a redefinition of media itself. Today, the contribution of AOL to the group is put somewhat differently. In Mr Parsons's first speech as the group's new boss, he identified his first priority: revitalising and turning round the troubled AOL.



Mixed in with the current blaze of short-term negative publicity about media conglomerates is a more general questioning of their longer-term purpose. There is a sense that the concept of an integrated media group, rather than just the price paid to build one up, is no longer right. Some industry observers have begun to wonder whether groups such as Vivendi, so painstakingly and expensively pieced together, would not be better off broken up. This week *Libération*, a French newspaper, reported that some of Vivendi's French board members were considering promoting just such a plan.

Inflated expectations

Yet it is essential to distinguish between the broad idea of putting content and distribution together, and the specific way in which some of the troubled media giants have done it. Of the six big groups—AOL Time Warner, Vivendi, Viacom, News Corporation, Disney and Bertelsmann—and the one hybrid—Sony—the first two have been the most criticised. They are also the pair that embraced new media most enthusiastically. Overestimating the transforming force of new distribution platforms has been the source of much disillusionment.

AOL Time Warner's folly was to have both overhyped and underdelivered. As Mr Parsons put it last week: “We've learned the lesson of overpromising.” Adding the distribution outlet of AOL to the entertainment businesses—Warner Brothers film and television, Warner Music, Home Box Office's television series and films, Time Inc magazines—was not in itself foolish. AOL, after all, has 34m subscribers whose eyes tend to fall on whatever content is parked on the service provider's home page.

What was foolish, however, was to make such heroic claims for it. AOL was supposed to inject new-media dynamism into what were seen as frumpy old businesses, such as TV shows or music. With revenues in 2001 of $8.7 billion, just 23% of the group's total, AOL has turned out instead to be just another distribution channel: handy to have, certainly, but not in itself revolutionary.

This is not to say that AOL delivers no promotional punch. When Warner Brothers released the first “Harry Potter” film last year, it was an instant success, helping to propel the studio to the top of the Hollywood league table. At the time, AOL ran promotions and competitions on its websites, designed to supply tantalising extras to AOL “members”. The same will happen next month, when Warner Brothers releases “Scooby-Doo”, a part-computer-animated film based on a classic animated TV series.

Reaching eyes and ears
Companies' main media operations

	Internet portal	Broadcast TV	Cable TV	Telecoms	Production: Film	Production: TV	Music	Publishing	Theme parks	Radio
AOL Time Warner	✓	✓	✓		✓	✓	✓	✓		✓
Viacom		✓	✓		✓	✓		✓	✓	✓
Vivendi Universal	✓		✓	✓	✓	✓	✓	✓	✓	
News Corporation		✓	✓		✓	✓		✓		
Disney		✓	✓		✓	✓		✓	✓	✓
Bertelsmann		✓				✓	✓	✓		✓
Sony					✓	✓	✓			

Source: *The Economist*

Just as with “Spider-Man” and the latest “Star Wars” movie, however, these films were “pre-sold”: everybody knew about them before they were made, let alone released. A better test of what AOL can really bring to the party is whether it can lift a mediocre piece of content. “Cats & Dogs”, for instance, a forgettable part-animated children's film that Warner Brothers released last year, might have sunk into

obscurity had AOL not picked it up and, as Bob Pittman, the group's chief operating officer, puts it, “turned the firehose” on it. AOL stuck images and news about the film on its welcome screen and devised competitions and games around it. The movie made a respectable $93m at the American box office.

Nowadays the heads of all the various bits of AOL Time Warner meet every fortnight to discuss ways of co-operating, and a helping hand from a sister division is more readily secured. Such extra promotion is not a bad outcome of the merger. But it is a far cry from the dazzling force for innovation and transformation that was once promised.

A similar case of heroic futurology afflicted Vivendi's Mr Messier. Parts of the conglomerate that he built up—in publishing, films, music and pay-TV—fit nicely into the traditional model. But what captured Mr Messier's imagination was the idea of combining his first-class entertainment businesses with his European-based interactive television, mobile-telephone and Internet portal operations, to provide a dizzying new multi-media experience. A track from Eminem or Shania Twain, say, released on a group record label, would be zapped to a mobile telephone; a clip from the group's latest Universal movie downloaded to a handheld device.

One day, some of this might actually happen. But for now Mr Messier has gathered an incomplete set of assets. Not only is it entirely unclear what the group's sewage-treatment and utilities businesses deliver to the mix; but the new-media distribution channels have also yet to prove their usefulness. It has been hard enough to persuade users to pay for music online, let alone via a portable wireless device.

For all these shortcomings, the troubles with new media at AOL Time Warner and Vivendi do not by themselves undermine the case for media conglomeration. This is because, if unleashed appropriately, two potent forces apply particularly strongly to the media industry: economies of scale and vertical integration.

The force is with you

The first force works with media because, unlike toothpaste or cornflakes, there is little extra cost in distributing a piece of content to 10m viewers or to 5m. As Christopher Dixon of UBS Warburg, an investment bank, argues: “The media business is all about the ability to spread the cost of content across as broad a distribution network as possible.” Once the cost of making a TV show has been recovered, the revenue gleaned from anybody else who can be persuaded to watch it flows straight to the bottom line.

That is why American broadcast networks have been so keen to create or to acquire sister cable channels on which they can repackage their content. Such channels helped News Corporation, for instance, to draw bigger audiences to “24”, a cleverly crafted drama series set in a counter-terrorism unit. Made by Fox television and aired on the Fox network, the series is repeated throughout the week on FX, Fox's cable channel. The principle also applies internationally. MTV, for instance, owned by Viacom, has already attracted its best-ever American audiences to “The Osbournes”, an oddly compelling reality-TV show depicting the baffling antics of a former heavy-metal singer and his family. MTV now plans to show the hit series on its channels around the world.

Moreover, scale helps a media group to afford the escalating cost of content. The more the industry is driven by the need to create hits and brands that stand out from the crowd, the more crucial it is to be able to afford the sort of content that will catch the eye, or lure the subscriber. The collapse of several small European pay-TV operators recently, partly under the cost of the rights to movies and sport, only underlines the disadvantages of being small.

The second force is the clout that comes from putting together content and distribution. If any company controls enough of both, it can promote its own content and control access to other people's. In the everyday negotiations that take place over the lunch tables of Beverly Hills or mid-town Manhattan, such leverage can crank up bargaining power. A network, for instance, might agree to buy a TV series for another year from a television production company, but only if that company's sister cable channel buys a couple of films from the network's sister Hollywood studio.

Warner Bros

Without such power, independent content makers find it hard to get their stuff on air. Writers, for one, now have far fewer doors to knock on. Fully 70% of all spending on American screenwriting is done by six media giants. Solo entertainment groups fear exclusion. Sensing the danger, EMI, an independent British record

company, has in recent years twice tried and failed—each time on competition grounds—to merge with a record company belonging to one of the conglomerates. It is now losing market share. Part of Vivendi's trouble today is precisely that it lacks a decent distribution channel in America.

Movie star, web sight and cover dog

More than this, a vertically integrated company can, if cleverly managed, transform a creative business into an exercise in brand management. Disney pioneered the practice, turning animated films such as “The Lion King” and “Toy Story” into lucrative product lines pumped through various distribution channels. When Warner Brothers releases “Scooby-Doo”, all the bits of the group will swing behind it: the Cartoon Network will run old episodes; new episodes will be shown on the WB network; and the soundtrack will be released under a Warner Music record label. Already, the entertainment division has been staging “live” Scooby shows.

Bertelsmann's boss, Thomas Middelhoff, has reorganised his company's structure precisely to capture these benefits. The group has a “chief creative officer”, whose job is to promote cross-fertilisation; it awards “synergy” prizes each year; and it runs “universities” to help managers dream up ideas together.

One of its current successes is “Pop Idol”, a TV talent contest judged by viewers. Its format was devised by Fremantle Media, Bertelsmann's production house; the winner secures a recording contract with BMG, the group's record company; and the series is expected to be shown in Germany on Bertelsmann's broadcaster, RTL. After taking Britain by storm, the show is due to be seen in America this summer. “The question no longer is whether co-operation among the divisions makes sense,” says Ewald Walgenbach, Bertelsmann's chief operating officer, “but only how great the advantages from such co-operation can be.”

Not all in the family

There are nonetheless limits to the advantages of media conglomeration. Crudely, they fall into three categories. The first is that exclusive favouritism can be counter-productive. The supplier of good content wants to get it in front of the best audience available, which is not necessarily the one that happens to be accessible to the same media group.

Warner Brothers Television, for instance, shows “Friends”, its hit comedy series, on the mighty NBC (owned by General Electric), not on its own far smaller sister network, the WB. Even “Pop Idol”, Bertelsmann's favourite synergy example, was shown in Britain not on Channel Five, a broadcast channel that the German giant controls, but on ITV, a rival channel that has far bigger audiences. Equally, a distributor cannot afford to supply only content made in-house. No user of AOL Music, for instance, an online music service, wants to be limited to music recorded only on Warner Music labels.

The second limit concerns businesses whose raw material is editorial opinion. In theory, magazines or newspapers sound like natural marketing outlets for content produced by a sister division. AOL Time Warner, for instance, owns Time Inc, whose titles include *Entertainment Weekly* and *Teen People* as well as *Time* and *Fortune*. Yet the credibility of such magazines would be undermined were they seen as a promotional tool.

For this reason, Time Inc, under its exacting boss, Don Logan, jealously guards its editorial independence, as do publications belonging to Bertelsmann's Gruner + Jahr. Indeed, some of the fiercest editorial criticism can come from these groups' own publications. “The Mess at AOL Time Warner” was the title of a harsh look at its parent company that appeared in a recent issue of *Fortune* magazine.

The third constraint has to do with the nature of creativity and size. The big Hollywood studios and their sister TV production houses may have the budgets to afford the special-effects films or glossy, well-crafted series that European content-makers would die for. But there are drawbacks to scale too. Independent screenwriters argue that creativity has been stifled now that the broadcast networks have been swallowed up, with production houses, into giant conglomerates. “The vital marketplace of ideas is paralysed by a system of preferential treatment”, argued a recent report by the Writers Guild of America. Some media bosses are beginning to raise the same question. Peter Chernin, the president of News Corporation, put it forcefully earlier this year: “All the benefits of size, whether it's leverage, synergy or scope, are fundamentally the enemies of creativity.”

Hollywood studios have tried to manage this by allowing autonomous boutiques to flourish within their conglomerate structure, designed to nurture a more creative, less formulaic, spirit. It is a pattern that has characterised creative industries throughout their short history as mass-entertainment media. The record industry has for years been built on this model: small independent labels (such as Island Records), which are better at spotting new artists, are bought by the big guys (in its case Polygram, now part of Universal), which then begin the search for small independents again. It can work in TV too: HBO is given freedom within AOL Time Warner, for instance, to create challenging new drama, such as “The Sopranos” and “Six Feet Under”.

This solution may sometimes work well. Indeed, some of the most ground-breaking drama now comes from television companies within conglomerates. It does not necessarily help spread the risk, however. In television, for instance, the broadcast networks used to share the cost of developing new shows with separately owned production houses. In a year when an increasing number of pilots have been developed in-house, the broadcast networks are not only relying more on the creativity of their sister studios, but are shouldering more of the financial risk. Most of the pilots now produced for Disney's ABC network, for instance, have been made in-house. So Disney is trying to turn round the fortunes of its lagging broadcast network, which has struggled since “Who Wants to Be a Millionaire?” fell in the ratings, largely at its own expense.

For all the constraints of operating within the media conglomerates, life in the entertainment industry remains extremely hard for those stuck forever on the outside. Over time, the media giants, as they have grown, have managed to renew their creative vigour by constantly hoovering up new, independent companies as they emerge—and trying to preserve their creative spirit thereafter. These days, any independent content-provider that does not somehow hook into this structure will struggle to be noticed. And what's the point of creative brilliance locked in a distributor's bottom drawer?

The hits that media conglomerates manufacture may not always qualify as great contributions to world culture. But in an entertainment business which is increasingly fed by such hits, the conglomerates will usually be best-placed both to create and to exploit them.

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Nasdaq and its rivals

Uncertain future

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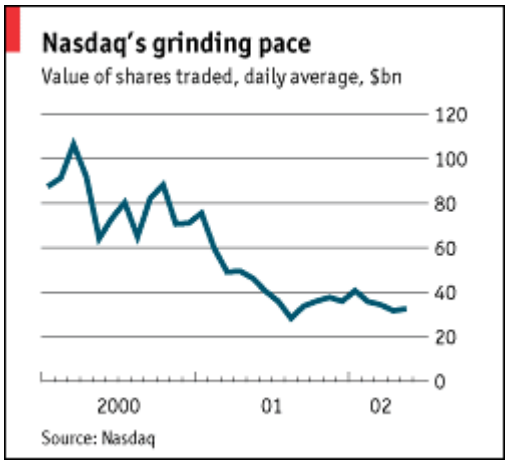
The world's second-biggest stockmarket faces the battle of its life

WHAT a difference two years make. In early 2000, there seemed no limit to what Nasdaq could do. Just as the technology and dotcom shares that it listed soared ever higher, so the marketplace itself seemed set for world domination. Not only was the New York Stock Exchange (NYSE, the world's biggest stockmarket) squarely in its sights. Partners and potential acquisitions were also being courted in Europe and Asia. Nasdaq's goal was nothing less than to be the first truly global marketplace for shares, fully electronic and open 24 hours a day.

Supposedly, that dream is still alive—enough for Nasdaq to be mentioned recently as a suitor for the London Stock Exchange. But the world may have to wait, for Nasdaq has a ferocious battle for its home market, against a gang of electronic share-trading systems, known as ECNs. It is not certain to win. And that may jeopardise a planned flotation.

Along with the Nasdaq Composite index, down by two-thirds since its March 2000 peak, trading volumes have plunged (see chart). Although shares in bigger firms, such as Microsoft and Intel, remain as liquid as ever, trading has dried up in many smaller companies. Falling demand has combined with thinner spreads (the difference between buy and sell prices) for market-makers, in part thanks to decimal pricing, introduced last year. Many firms have stopped making markets, at least in less heavily traded companies.



Liquidity concerns have led to a steady stream of company defections from Nasdaq to the NYSE. Many more have been delisted for no longer meeting the requirements of Nasdaq, not least that the shares be worth something. Some 4,730 firms were listed on Nasdaq at the end of 2000, but only 3,990 this March. Listing fees matter, as they account for nearly one-fifth of Nasdaq's revenues.

The prospects are even more troubling in two other business areas. Last year, transaction services—fees for the various activities involved in executing a trade—raised $409m (48% of total revenues), and the sale of market information raised $241m (28%). Both are now threatened by a price war between Nasdaq and its electronic rivals. Although one, Instinet, has been around since 1969, most other ECNs were created following the introduction in 1997 of new order-handling rules, after a scandal over price-fixing by Nasdaq market-makers. These rules allowed electronic marketplaces to charge other Nasdaq market participants an access fee for using their buy and sell orders. Competition among ECNs helped to narrow spreads and later drove down trading costs and access fees. ECNs now account for 37% of Nasdaq's trading volume.

Nasdaq has long worried about the ECNs, especially Island, which overtook Instinet last November. This year, the war intensified. Nasdaq charges market-makers (including ECNs) when they give Nasdaq their buy and sell quotes and trading data, which it then sells to investors. Frustrated by seeing this money disappear, Island recently started to publish a chunk of its Nasdaq trades on the rival Cincinnati Stock

Exchange, which returned to Island 75% of the revenues it made from selling the data—much of which Island gave back to the investors. That did the trick. In February Nasdaq started to share data revenues with ECNs and other market-makers. This could badly dent Nasdaq's revenues.

In March Island cut its “25/10” pricing system, which had become the Nasdaq norm: somebody posting a buy or sell order gets a rebate of ten cents for every 100 shares as a reward for providing liquidity, and somebody fulfilling the order pays 25 cents for removing liquidity. Island's new pricing formula is 19/11. Nasdaq has responded by raising revenues through various other charges, notably one for regulatory services based on the number of quotes a market-maker or ECN generates. That falls disproportionately on Island, says Matthew Andresen, its boss: “Nasdaq thinks we are an ATM, not an ECN.”

The endgame may come with the launch in July of Nasdaq's new trading platform, SuperMontage. As originally conceived, as a consolidated order-book for all the quotes from ECNs and other market-makers, it would probably have driven the ECNs out of business. The impact of the current version of SuperMontage, watered down by ECN lobbying, is harder to predict, not least because ECNs are no longer obliged to participate in it.

A report by Celent, a research firm, argues that, because liquidity begets more liquidity, SuperMontage will win a market share of over 50% by the end of 2003. But this assumes that most of the big ECNs join SuperMontage—which is unlikely. One of them, Archipelago, has bought the equity-trading arm of the Pacific Stock Exchange, and may quote there and not on SuperMontage. Island had said it would join, but it is now reconsidering, with speculation that it will be bought by Instinet, which itself has yet to decide.

Instinet has lost its way of late and recently ousted its chief executive. But a merged Instinet-Island could be a formidable competitor to SuperMontage, says Benn Steil at the Council on Foreign Relations. The compromises required to get all the different Nasdaq participants to join might hold back SuperMontage against a rival marketplace with plenty of liquidity. Between them, Island and Instinet have over 20% of Nasdaq trades. Still, the SEC might constrain a merger, for fear that it would overly fragment the share-trading system, says Mr Steil.

Whatever happens to SuperMontage, the profitability of market-making in Nasdaq shares is heading inexorably lower. Competition among exchanges is fiercer than among airlines, says Larry Harris of the Marshall School of Business, soon to be chief economist of the SEC. “Entry costs are high but zero marginal costs mean that profit-making prices are extremely difficult to maintain.” Nasdaq likes to advertise itself as “the stockmarket for the next 100 years”. It faces a challenge even to be the stockmarket for this year.

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Wall Street

Merrill settles

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Merrill Lynch and New York state's attorney-general declare a truce

AP

Komansky, like Caesar's wife

WITH the announcement this week that Merrill Lynch had reached a $100m settlement with New York state's attorney-general, Eliot Spitzer, over conflicts of interest that affected its research analysts, rumours began circulating over which firms might be next. CSFB and Citigroup are high on the list, if only because CSFB recently settled other charges with federal regulators, over the issuance of initial public offerings; and Citigroup's bankers and analysts also played a key role in raising finance for the telecoms industry. That was an area that proved lucrative to underwriters during the boom, but costly to investors during the bust. Both firms have received inquiries from the industrious Mr Spitzer.

How any prosecution might unfold is unclear. The settlement reached with Merrill Lynch came without any charges being filed. Prosecutors never put forward a case. Merrill's alleged crimes were never laid out. The strongest evidence, reproduced in an affidavit from portions of e-mails sent by Merrill's Internet analysts, was more muddied when seen in full than the widely disseminated excerpts might have suggested.

Further litigation, however, was clearly unbearable for Merrill. Last July it settled a private action by an investor who claimed to have been defrauded by the firm's Internet team. This week's settlement was drafted to deflect more civil suits to come. Merrill neither acknowledged guilt nor provided for any investor restitution. Rather, its chief executive, David Komansky, attributed the settlement to Merrill's need to redress the “tone and tenor” of the e-mails and to place its operations above suspicion.

Merrill agreed to pay an explicit fine, with $48m going to New York and $52m to other states and regulatory agencies. Conveniently, the settlement will be tax-deductible, so a big portion of the fine will actually be a transfer from federal to state governments. Other provisions appear to be tougher than they really are. Merrill will create a committee to monitor the “objectivity” of its research; yet a similar, if less committed, one already exists. E-mails will be monitored, but who now will be foolish enough to write anything compromising? Merrill has markedly increased its disclosure of potential conflicts of interest it may have over companies it evaluates, but such disclosure was anyway being required by the main stock exchanges.

The heart of the negotiations had to do with how research analysts should be paid. Payment for services to investment banking is no longer allowed. All the same, analysts may still help market deals. And their pay—affected as it is by the performance of institutional salesmen, the number of clients and the overall profits of the firm—will inevitably be affected by investment-banking performance.

Why a case that began with a bang has ended with this sputter is a matter of conjecture. Mr Spitzer may have felt that his evidence would have had a tougher time before a jury than it did in the press. Mr Spitzer, a man with political ambitions, may have misjudged a shift in New York's perception of Merrill, a big employer struggling with tough times. It made a powerful statement late last year, when it became the first company to reopen for business in the World Financial Centre, right next to the September 11th attacks.

And while there is no shortage of continuing investigations, future cases, particularly without e-mails, may be tougher to assemble. CSFB, for instance, never sold shares to the small investors whom the attorney-general presumes to champion. The firm's new management has been cutting costs everywhere

but in compliance, suggesting that lessons are already being learnt. Citi might be another story, if only because it is the world's largest financial company, with a presence in every market segment and catering for all investors. Its strategy is, precisely, to encourage all parts of the bank to co-operate with the rest—a strategy that, on the broadest definition, puts conflicts of interest at its core. Still, a successful prosecution requires a crime and some evidence. Mr Spitzer's minions doubtless have a busy summer ahead in pursuit of such details.

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German stockmarkets

After greed, fear

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No end to the troubles of the Neuer Markt

MOORHEN or dodo? On May 14th Phenomedia, a computer-games company listed on Frankfurt's Neuer Markt, filed for insolvency. A few weeks earlier Phenomedia, which introduced Germans to the Moorhuhn, a cartoon bird, and Sven, a fun-loving ram, had owned up to accounting errors. It was followed into insolvency three days later by Gontard & MetallBank, a small Frankfurt bank that had helped fledgling companies to market.

EPA

And never to return

There seems to be no end to the scandals and failures. Time and again in the past two years, investors have learnt that they have been taken for a ride by, say, EM.TV, a scandal-ridden media company, or Comroad, a navigation-technology firm that invented almost all its turnover in 2000. No wonder the boss of Direkt Anlage Bank, an online broker that is one of the Neuer Markt's better-known names, mused this week about leaving.

So far this year the market has lost 20% of its value, compared with Nasdaq's 15%; it is now at a mere one-tenth of its March 2000 peak, compared with Nasdaq's one-third. Several companies, having seen their shares fall below *euro*1 (92 cents), have delisted. Deutsche Börse, which runs the Neuer Markt, would have shown the door to more such “penny stocks” had it not been stopped in court. Fund managers say that only about 50 of the market's remaining 300 or so stocks are of any interest.

It is possible to take a more sanguine view of this. The Neuer Markt is young, a mere five years old. It caught the technology-stock bubble, for good or ill; and throughout history bubbles have attracted cheats and fools aplenty. In any case, it is meant for young firms in growing industries, and can accordingly expect a higher failure rate than a market for established, blue-chip companies. Better still, the Neuer Markt called forth a boom in venture capital, previously a tiny industry. It went too far, of course: too many fly-by-night funds were set up and too many companies were brought to the market that should never have come near it. Nonetheless, the industry is established, and young companies now have an alternative to traditional bank finance.

This is all true, and yet the wave of scandals has put plenty in jeopardy, including hopes of wider share ownership. Compared with Americans or Britons, Germans are newcomers: the first big increase in share ownership came with the first sale of shares in Deutsche Telekom, the national telecoms giant, in 1996. The rise of the Neuer Markt fuelled interest.

This interest seems now to have stalled, as the market has fallen in and the scandals have multiplied. Worse, the value of Deutsche Telekom shares has collapsed, as the company sits under massive debts; on May 22nd it announced a large loss. The shares are now worth less than at issue. According to Deutsches Aktieninstitut, which promotes share ownership, the total number of shareholders fell in the second half of last year. Net investment in equity mutual funds, although positive in the past two quarters, is much weaker than in property or money-market funds.

The German authorities are not sitting back; they are introducing a wave of new regulations. A law that has just about made its way through parliament will, among other things, allow Deutsche Börse to exclude penny stocks from the Neuer Markt. This follows the introduction of new listing rules for initial public offerings on the Neuer Markt, which will oblige listed companies to include all relevant information in their prospectuses. A new code on corporate governance, published in February and to be updated yearly, should encourage managers to be more open with their shareholders.

Although welcome, these new rules could go further. The listing rules do not, for example, apply to secondary share offerings. Companies will not have to comply with the corporate-governance code, but merely to explain when they do not. It is hard to see how much difference the new rules might make—and harder still to tell how much long-term damage the Neuer Markt scandals have done.

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Financing Eastern Europe

Who's fairest?

May 23rd 2002 | BUCHAREST
From The Economist print edition

New optimism at the European Bank for Reconstruction and Development

THE European Bank for Reconstruction and Development (EBRD) was once criticised for its marble-clad folly of a London headquarters, the legacy of an earlier, glamour-happy president. Yet its annual bash this week, in Bucharest's marbled Palace of Parliament, conceived by Romania's executed dictator, Nicolae Ceaucescu, used fewer than a tenth of the 3,100 rooms and halls. In the main one, the governors of the bank ground through their set speeches. In side rooms, each of the EBRD's 27 borrower countries—from Balkan republics rebounding from civil wars to Uzbekistan, America's new ally against al-Qaeda—had an hour to present themselves to potential investors.

Just over $25 billion of foreign direct investment (FDI) flowed into these countries in 2001, with the lion's share ($15.8 billion) going to Central Europe. About $3.5 billion in private-equity funds is looking for investments in the region; once again, Central Europe attracts most money. As these countries compete for FDI, many feel that they are competing for accession to the European Union too. Romania and Bulgaria in particular, which will not catch the first wave of entrants due to join in 2004, fear that the gate will then close, despite reassurances from Brussels.

Romania was a late starter. Only since the election in 2000 of the present centre-left government has there been a commitment to dismantle leviathan state structures. Yet Romania has still not done things fast enough for the International Monetary Fund. It held up a $107m loan this week, because of the country's reluctance to lay off 4,200 industrial workers and 10,000 military. The setback may only be temporary. The EBRD president, Jean Lemierre, was full of praise for Romania's efforts. So was Paul O'Neill, America's Treasury secretary. On a visit to a local furniture factory, which has benefited from an EBRD loan, he sang the virtues of lending to small business.

Fostering small and medium-size enterprises has been the mantra of both America and the EBRD since 1995. Willem Buiter, the bank's chief economist, says that lending to new projects has been a great success, but he wishes the bank had been more involved in the “really difficult stuff”—restructuring the big enterprises.

A revised vision of the EBRD goes like this: it lends wherever it can, without state guarantee, increasingly to municipalities. It helps to upgrade and privatise utilities, particularly energy companies. And it encourages the development of small and medium-sized companies until these countries teem with them—just as do swathes of Germany and north Italy.

Still, the EBRD has learnt that there is no blueprint. Each country struggles with its particular problems. Albania, for example, is overdependent on hydropower, which lets it down when, as last winter, there is little water. Croatia could buy up its domestic money supply twice over using its foreign-currency reserves, and is considering an early switch to the euro. Yugoslavia, soon to be renamed Serbia and Montenegro, is advancing rapidly under a team of westernised technocrats, cherry-picking the best reforms from more seasoned countries. Slovakia's problem is that two-fifths of GDP is accounted for by its capital, Bratislava, alone.

Hungary and Poland are in a different league, having started their transition in the 1980s. Hungarian workers are getting too expensive: Microsoft has relocated its Hungarian production to China, because of the cost. Poland, once the good boy of transition, with outstanding growth until the late 1990s, has slowed sharply. Who or what is to blame? Marek Belka, Poland's finance minister, was not shy of criticising his country's central-bank president, Leszek Balcerowicz, for refusing to loosen monetary policy. An untroubled Mr Buiter defends the central bank and calls it “a short-term kerfuffle”.

Earlier criticisms of the EBRD and its complex mission have abated now that its presence is felt more on the ground. Its vision is infectiously optimistic, and it appears to be shared by western banks, particularly Austrian and Italian ones that have committed themselves to Central and South-Eastern Europe.

Despite the banks' optimism, poor institutional and judicial systems and cultures persist in most countries. That is evident in the non-enforcement of laws and taxes, bad corporate governance and high-level corruption. The examples of Enron, Andersen and Merrill Lynch in America have shown these countries that nowhere is perfect. But, says Sergiu Oprescu, chairman of the Bucharest Stock Exchange, it should also teach that investors everywhere will get hotter over governance, transparency and shareholder rights. He has invited companies to upgrade to a super-transparent tier of listings on his exchange. Few have rushed to sign up.

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Australian insurance

The Enron down under

May 23rd 2002 | SYDNEY
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The ripples from a big insurer's collapse continue to spread

THE past year has been a bewildering one for Australians. On the one hand, their economy has boomed right through a world recession. On the other, some of their best-known companies have gone bust. In telecoms, it was One.Tel, a start-up backed by Australia's two most prominent business clans, the Murdochs and the Packers, whose collapse embarrassed both families. In aviation, it was Ansett, the junior partner in Australia's former airline duopoly, which folded last September quite independently of the effect on air traffic of the September 11th attacks.

The most serious collapse by far, indeed the largest in Australian history, was the demise last year of HIH, once the country's second-largest general insurer. The political fallout from the collapse continues. Together with the failure this month of another insurer, UMP, it has cast Australia into a crisis not only in insurance but in construction, medical practice and other activities that have got costlier and harder for lack of affordable liability insurance.

HIH's collapse highlighted failings in corporate governance, regulation and auditing (shades of Enron's later collapse, perhaps, particulary since HIH shared an auditor in Andersen). Last June Australia's prime minister, John Howard, established an independent commission to find out what had gone wrong. So much is now emerging that the commission, originally due to report next month, has extended its life until next February. Its hearings have become a weekday financial soap opera. Already, the reputations of several local tycoons have been sullied; Goldman Sachs, an American investment-banking giant, is feeling uncomfortable.

Awful management bears much of the blame for the failure of HIH. Mostly, the insurer underwrote policies for worker compensation and professional indemnity. These are not straightforward, since the claims' “tail” can stretch out for years. HIH appears to have badly misjudged its risks, underreserving by some A$5 billion ($2.7 billion). Its chief executive, Ray Williams, also moved aggressively into reinsurance. Speciality reinsurance—for Florida hurricanes, for instance—is a gossipy art conducted in the corridors of the London market, yet HIH ran it from Australia. As a counsel at the HIHcommission puts it: “The smarties in London saw these Aussies as naive and gullible”, and offloaded their bad risks on to them. To make it look as if it had transferred risk, HIH bought fake retrocession (that is, re-reinsurance).

Then, in 1998, HIH bought another rotten insurer, FAI, for A$300m. Among Australian lawyers and insurance brokers, FAI, which stands for “Fire and All-risks Insurance”, had long been known as “Fuck-All Insurance”. FAI was worthless at best, and the commission is now trying to find out why HIH bought it. FAI's chief executive, Rodney Adler, one of Australia's most flamboyant businessmen, also sat on HIH's board and had some of his own money at risk. Over a matter of weeks in 1998, and without telling HIH, Goldman Sachs, FAI's adviser, revised sharply downwards its valuation of the insurer, from A$200m to A$20m.

The fall-out has been immense. HIH's collapse was the first of several events last year (September 11th was another) that triggered a rise in global reinsurance premiums. In Australia, premiums have gone up in most insurance sectors, but especially for home-warranty insurance, compulsory for builders, and for professional indemnity. At one point, construction was suspended in several states, and lawyers turned away clients for lack of cover against negligence. Since UMP, which insured doctors, went bust, the government has had to step in with subsidies just to keep surgeons operating.

Australia's boardrooms will never be the same, and not just because directors now pay a fortune in professional-liability premiums. HIH had all the mechanisms of good governance—external directors, audit committees, and so on—in place, yet they were ineffectual. Then there is the financial regulator. It

is now pursuing Mr Williams, Mr Adler and others with seemly vigour. But where was it throughout the 1990s? One reason for an independent inquiry, says a lawyer involved, is—besides the entertainment value—that, if it had been left to the regulators, “they would have only covered their own arses.”

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Asbestos

Outlandish claims

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From The Economist print edition

Endless litigation

ASBESTOS claims will long be with us. In America last week one of the largest corporate settlements over asbestos, a fire retardant that causes lung cancer and other diseases, was agreed, between around 30 insurers and PPG Industries, a chemicals and paint manufacturer with a half-share in a bankrupt asbestos producer. The $2.7 billion settlement is meant to resolve all current and future claims. Separately, Britain's Law Lords overturned an appeal court ruling that denied compensation to victims of asbestos-related illnesses if they could not prove which of several employers was responsible.

British insurers had expected the Lords ruling and had increased reserves against it. Yet both they and plenty of their American rivals are unhappy about the PPG agreement. The fear is that blanket settlements such as this encourage opportunistic claims. And they are worried about attempts to reclassify asbestos claims in America as “non-product” claims. Unlike product-liability sections in companies' property-and-casualty policies, which have aggregate limits, non-product liability is usually unlimited. This might conceivably increase compensatory payments to outlandish proportions.

The biggest headache for insurers and companies in America is litigation by claimants who are not seriously ill, against companies with only a peripheral connection with asbestos. Of about 91,000 cases filed last year, only 6% of claimants actually suffered from an asbestos-related illness. Almost all other claimants demanded compensation for anxiety over the risk that they might have asbestosis. Since almost every past manufacturer of asbestos is now out of business, companies that may have used a product containing asbestos—from car makers to petrochemical companies—are being sued, along with those that transported the stuff.

By the time all asbestos claims are settled, they will have cost insurers and companies far more than the $40 billion-60 billion of losses from last September's terrorist attacks. A study by Tillinghast-Towers Perrin, an actuary, reckons that the total cost of asbestos claims worldwide will eventually be around $200 billion, with over $120 billion borne by the insurance industry. More than 50 American companies have been driven into bankruptcy since the first asbestos-related lawsuit was filed in 1966, in Beaumont, Texas. Many more are likely to go bust.

The Supreme Court has twice pleaded with Congress to legislate to end the flood of litigation. But the Association of Trial Lawyers, the staunchest opponents of tort reform—that is, reform of personal-injury legislation—is a powerful lobby and has blocked reform measures.

Few companies put up much of a fight against asbestos litigation. But G-1 Holdings, a bankrupt company formerly called GAF Corporation, is now suing three law firms in a New York court. It argues that the firms “orchestrated a scheme to inundate the courts with hundreds of thousands of asbestos cases”.

Asbestos litigation in Britain is unlikely ever to reach American proportions. Britain's legal system does not impose punitive damages or allow the kind of class-action lawsuits common in America. The difference between Britain and America, says Robert Mendelsohn, chief executive of Royal & Sun Alliance, Britain's largest non-life insurer, is that in Britain compensation for asbestos is paid to those who are seriously sick, rather than to lawyers and co-claimants in a class-action suit. In America, the danger is that, as fewer companies have to pay more claims, critically ill victims of asbestos might get inadequate compensation—or none at all.

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Credit derivatives

What's in a name?

May 23rd 2002
From The Economist print edition

Dealers in credit derivatives launch a name-scrubbing exercise

IF YOU are buying a credit derivative, please pay attention to small matters such as the name of the company whose credit risk you are trying to hedge. Three of the biggest dealers in credit derivatives—instruments that allow the risk of a borrower defaulting to be bought and sold—have launched a project to check the names of all the companies in their contracts. Their worry, quite simply, is that their traders might have written down company names that differ from their clients' idea of what they were buying (or selling) credit protection for.

A warning came last year when one big bank, UBS, filed a lawsuit against a rival, Deutsche Bank, for refusing to pay out on a credit derivative on Armstrong World Industries, a maker of building materials based in Pennsylvania. Armstrong World Industries, it turns out, had put itself into a holding company called Armstrong Holdings. Armstrong World Industries, the main subsidiary, filed for bankruptcy in December 2000 because of rising asbestos claims, but Armstrong Holdings did not. Deutsche Bank tried to claim that it had sold protection on Armstrong Holdings, not on Armstrong World Industries, but it backed down when the case became public. Swiss Re Financial Products sued XL Insurance, based in Bermuda, over the same company and for the same reason—and settled out of court.

Rival dealers decried Deutsche's initial response as spivvy, but the case left them uneasy: what if their books were peppered with outdated or confusing names? The credit-derivatives market has reached a size of nearly $1 trillion worldwide, a rise of a half since the middle of last year. Goldman Sachs, J.P. Morgan Chase and Deutsche Bank are spearheading the name-scrubbing exercise, keen to show that the new market is built on firm foundations. Other dealers, especially those who have bought protection, are not impressed. “They should have got it right in the first place,” sniffs the head of credit derivatives at a British bank.

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Economics focus

The white heat of technology

May 23rd 2002
From The Economist print edition

Regulation, the dynamics of firms and lagging productivity growth in Europe

THE Organisation for Economic Co-operation and Development, based in Paris, has for years preached about the urgent need for Europe to pursue labour- and product-market reforms, so as to lift productivity growth and create jobs. So yet another study on the subject is likely to be greeted with a yawn; but that would be a pity. For this time the OECD has used new data on individual companies in different countries to shed more light on its earlier, macroeconomic studies of what drives growth.

The OECD has compiled a database of companies' activities in ten rich countries. Using this data, its new study* examines the impact that regulation of product and labour markets has on productivity, and particularly the ways in which regulation might deter entrepreneurs from setting up new firms.

An economy's productivity can increase in three main ways. The productivity of existing companies might rise. The share of high-productivity producers might grow at the expense of low-productivity ones. Or new firms might enter the market and old ones might exit—assuming that the new are more productive than the dying.

The OECD study compares labour-productivity growth in 1987-92 and 1992-97. It finds that 50-85% of total productivity growth in each country is driven by what happens within existing companies. Shifts in market share play only a small role. On the other hand, the entry and exit of firms can account for 20-40% of total productivity growth. In high-tech industries, new firms are found to make a far bigger contribution to productivity growth. In more mature industries, productivity growth within existing companies, or the exit of old ones, counts for more.

How might the entry of new firms be influenced by labour- and product-market regulations? The study looks across several countries at the rates at which new firms are born and others die. In any given year, on average, about one-fifth of all firms are either new entrants or will close down. As many as 30-40% of new firms do not survive beyond their first two years.

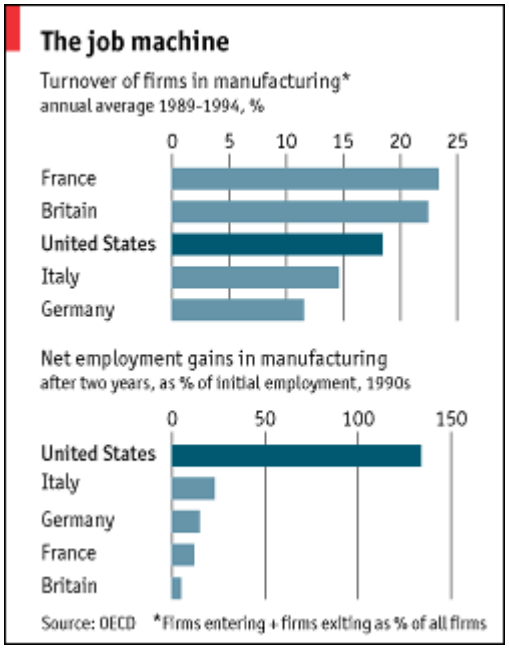
It is often argued that one reason for low productivity growth in Europe is that high barriers to entry deter the creation of new firms. Not only are the administrative costs of start-ups high; it can also take ages to get a permit. Setting up a new firm takes, on average, seven business days in America, but 66 days in France and 90 days in Germany—reason to expect the rate at which new firms are created to be much lower in Europe than in America. Yet as the top chart shows, the entry and exit rate for firms is broadly the same in Europe as it is in America. The main exception is Germany, where the rate of corporate churning is quite a bit lower.

Still, the dynamics of new firms in America differ from those in Europe: start-ups tend to be relatively small in America, but they grow much more rapidly. American firms that survive double their employment over the first two years, on average; employment gains among new firms in Europe are only 10-20% (see bottom chart).

How might this reflect differences in market regulation? The swifter expansion of new American firms could simply reflect the bigger size of their domestic market. However, economists at the OECD reckon that the smaller initial size of new American firms, and their faster growth, chiefly reflects America's more liberal product-market regulation, as well as the lower cost of adjusting the workforce to changes in demand, thanks to less strict worker-

protection laws.

Using various indicators to gauge the stringency of product-market regulation and the cost of hiring and firing workers, the study finds strong evidence that heavy-handed regulation reduces productivity. However, at an economy-wide level, this is not necessarily because product regulation and employment protection discourage the entry of new firms. Europe's problem is not so much barriers to entry as barriers to expansion: notably, job-protection laws that clearly discourage new hiring.



Further, it is in industries in which technology is rapidly changing that the impact of regulation on new start-ups, and hence on productivity growth, may be more significant than for the economy as a whole. There is good evidence that the more an industry or a country lags behind the global leader in a particular technology, the greater the impact of regulation on productivity. In such cases, stringent regulation might hinder the adoption of technology by existing firms, or restrict the entry of new high-tech firms. This helps to explain why Europe lags America in both the development of high-tech industries and the pace of investment in information technology.

Lower start-up costs and less strict worker protection make it easier for innovative entrepreneurs in America to experiment on a small scale (hence the smaller size of new firms), to test the markets and to expand. In Europe, the higher costs involved in changing the size of the workforce make all these harder. In a period of rapid technological change, greater experimentation allows new ideas to be tried out more swiftly. In such times, Europe's barriers to entry can become a barrier to growth.

"The Role of Policy and Institutions for Productivity and Firm Dynamics: Evidence from Micro and Industry Data", by Stefano Scarpetta, Philip Hemmings, Thierry Tressel and Jaejoon Woo. OECD working paper 329, 2002.

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The ethics of brain science

Open your mind

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From The Economist print edition

Genetics may yet threaten privacy, kill autonomy, make society homogeneous and gut the concept of human nature. But neuroscience could do all of these things first

IN THE genetically engineered world portrayed in “Gattaca”, a movie made in 1997, the hero and heroine attend a concert in which a pianist performs a concerto that can be played only by a person with six fingers on each hand. This is a society in which genetic perfectionists have had their way. The concert-goers have been altered before birth to be free of such ailments as baldness, obesity and diabetes, and to be tall, good-looking and intelligent. In that room, improbable as it may seem, only Ethan Hawke has lived a life free of genetic enhancement; he alone has had to take his chances with the genetic lottery of natural conception.

Compare this scene to one in which the effects of neurotechnology (technology that makes it possible to manipulate the brain) are pervasive. The old man on the left of the aisle is being saved from Alzheimer's disease by an implant that bathes his brain cells in a healthy broth of chemicals. The little girl in the circle, vows her doctor, has a cortex that will one day win her a Nobel prize in physics—if she keeps up the correct regime of “cogniceuticals”, of course. As a condition of their employment, the security guards posted at the entrance had to undergo brain scans to demonstrate that they were free of propensities to uncontrollable rage. The musicians on stage are on drugs that speed their reflexes, heighten their hearing and assuage their performance anxiety. Not that different from “Gattaca”, is it?

The mind's eye

Although often overlooked, advances in neurotechnology raise ethical and legal questions of the same nature and gravity as advances in genetics. Concerns about genetic technology fall into three main categories: first, how much screening should be allowed for certain genetic traits; second, who should have access to such information; and third, what will happen when those traits can be modified at will, possibly in ways that challenge the very idea of what it is to be human.

Concerns about neurotechnology fall into the same three groups. Neuroscientists may soon be able to screen people's brains to assess their mental health; to distribute that information, possibly accidentally, to employers or insurers; and to “fix” faulty personality traits with drugs or implants on demand. They may also, according to some philosophers, expose fallacies in philosophical thinking that go to the heart of human nature by showing how the brain actually makes decisions.

Neuroscientists may soon be able to screen people's brains to assess their mental health

Until recently, neurobiologists have been constrained in their research by the consideration that most kinds of experiment with the human brain are seen as unethical. Tradition has it that they must sit around with their fingers crossed, hoping that a patient will walk through the door sporting a tumour or other injury in a part of the brain whose function is not yet understood. Ideally, this patient will show some odd behaviour—say, being able to multiply but not add, or mistreating cats but not dogs—that can be tied to the injured area. Thus, painstakingly, a map of which parts of the brain do what can be built up.

Over the past decade, however, machines for measuring brain activity have proliferated. There are now half a dozen such technologies, ranging from old favourites, such as electro-encephalography, to new-fangled methods including magneto-encephalography, which measures the brain's magnetic fields, and single-photon-emission computerised tomography, which tracks radioactively tagged chemicals around the organ. One of the most important new techniques is functional magnetic-resonance imaging (fMRI), which employs powerful magnetic fields to monitor the rate of blood flow in the brain, and thus to determine which parts are particularly active.

With the help of fMRI, researchers can observe which brain areas are involved when somebody performs a particular task or thinks along particular lines. That could be a boon. It could, for example, identify children whose brains are not maturing normally—making possible early intervention with, say, special lessons.

A study to be published shortly in *Neuroimage* shows how this might work. Vinod Menon and his colleagues at Stanford University have been using fMRI to investigate how people's brains behave when they are subjected to the Stroop colour-word interference task. The Stroop task is a well-established psychological test that presents subjects with the names of colours printed in ink that does not match the colour named. The subjects have to name the colour of the ink, not the word that has been printed.

Researchers can observe which brain areas are involved when somebody performs a particular task or thinks along particular lines

As people mature, their brains get better at coping with the challenge the task poses. Dr Menon has found that children, adolescents and adults show progressively different patterns of brain activity which appear to reflect this improvement. He has discovered that a child whose brain is not maturing normally will show an unusual pattern of brain activation when performing the test. That reveals problems with brain development that an ordinary questionnaire-based psychological evaluation does not.

Nobody could object to such a worthy enterprise. But what about the following idea? Greg Siegle and his colleagues at the University of Pittsburgh are studying depression. In a paper published in this month's issue of *Biological Psychiatry*, they report that when depressed individuals are read a list of depressing words, they show a different response in a region of the brain called the amygdala from that displayed by “normal” individuals. The amygdalas of the depressed hum away for as long as 25 seconds after hearing a depressing word. Those of individuals who have never been depressed stop showing activity after ten seconds. Dr Siegle suggests that the depressed subjects ruminate on, or think repeatedly about, sad words, while the undepressed subjects simply move on.

Since the amygdala is known to be involved in processing emotion, that is not altogether startling. Suppose, though, that job-recruiting agencies were fitted with fMRI machines (unlikely at the moment, given their expense, but not unimaginable). An individual who wished to conceal evidence of depression from possible employers would have a much harder time doing so in the face of fMRI, than in the face of a little light form-filling.

And that may only be the start. Just as genetic markers can be associated with physical states, so features of brain scans will surely be linked to a wide variety of mental states. fMRI screening might, for example, become a foolproof method of lie detection—one that could catch out even “astute liars” who pretend to have impaired memories when put under pressure by an interrogator. Other personality traits, such as tendencies to aggression or risk-aversion, could also yield their secrets to fMRI's probing glance.

Just as genetic markers can be associated with physical states, so features of brain scans will surely be linked to a wide variety of mental states

Steal your face

Medical privacy is another area that brain scanning could compromise. One of the most immediate threats is a little-considered side-effect of the scanning process: that what is scanned and recorded is actually the head, and not merely the brain. In other words, a magnetic scan of a brain also contains enough information about the front of the skull to recreate a recognisable depiction of the scanned subject. The result is that, unlike a genetic profile, which does not, by itself, tell you who has been profiled, no magnetic-resonance image is inherently anonymous.

Neuroscientists are already building up databases of brain scans for research purposes. In 2000 John Van Horn and Michael Gazzaniga, two cognitive neuroscientists at Dartmouth College in Hanover, New Hampshire, launched a database called the fMRI Data Centre, to help disseminate fMRI studies among scientists. They hope that it will spur discoveries in neuroscience in the same way that GenBank, a public database of gene sequences, has spurred discoveries in genetics. The fMRI Data Centre makes raw data from such studies available to researchers, and will soon organise the data so that interesting features can be extracted from it systematically. So far, says Dr Gazzaniga, roughly 400 researchers around the world have requested data from the centre. Those data are shipped to them on compact discs to do with as they please.

One answer to the lack of anonymity of magnetic-resonance images is to scramble the picture in the part of the image that contains facial information. The managers of the Dartmouth database do just that. Such scrambling, however, makes the data useless for some sorts of analysis. It is therefore questionable whether the operators of other databases of neuro-images (several are planned) will follow suit.

Pictures of perfection

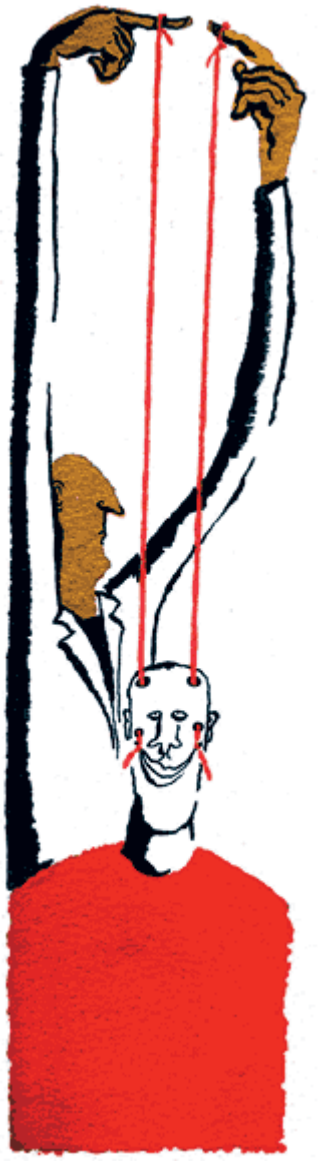
Just as with genetics, however, the spectre that most terrifies many of those who fear the advance of neurotechnology is that it will one day be capable of “enhancing” human beings. Some worry that this may blunt the differences between individuals, turning society into one homogeneous mass. Others see the opposite risk—a Gattacesque division between the privileged and the unenhanced.

Potential dystopias always make good press. But drawing the line between necessary therapy and discretionary enhancement is genuinely difficult. Some argue that society accepted the idea of so-called “cosmetic psychopharmacology” when people first began using recreational drugs. Who has not perceived himself to be wittier and more attractive than normal when under the influence of alcohol—or, indeed, seen wit and attractiveness in others in the same circumstances?

Another argument is that drugs for the brain are simply one more step down a road taken by orthodontics, face lifts, Viagra and other medical extras. That may be so. But it could be a step in seven-league boots, for pharmaceutical companies are only just beginning to mine the spectrum of psychological ailments that flesh is heir to. Drugs to combat shyness, forgetfulness, sleepiness and stress are now in or close to clinical trials, not to mention better versions of drugs that have already swept society—what Arthur Caplan, a bioethicist at the University of Pennsylvania, calls “super-Prozacs”.

One example of the trend towards making the normal treatable is research into “mild cognitive impairment”, the kind of slight deterioration in memory that goes with getting old. Or that does for now, anyway. Many companies are hunting for drugs to fend off this sort of memory loss. Researchers at Cortex Pharmaceuticals in Irvine, California, for example, are exploring molecules known as ampakines. These attach themselves to nerve-cell proteins called AMPA receptors. That serves to amplify the transmission of signals from one nerve cell to another. In particular, it amplifies the effect of a second protein, the NMDA receptor, which is known to be associated with learning. Meanwhile, Targacept, a firm based in Winston-Salem, North Carolina, is looking at another group of nerve-cell proteins, the nicotinergic receptors, whose activation has been shown to increase alertness and may fend off cognitive decline.

Another technology, known as transcranial magnetic stimulation (TMS), also holds out the promise of enhancement. Since nerve cells use electrical signals, and magnetic fields can induce and disrupt such signals, a strong, well-aimed magnetic stimulation can affect the brain's operation. By holding a magnetic coil over somebody's skull, a researcher can affect the activity of the piece of cortex beneath, while causing no pain to the subject. Sending repeated magnetic pulses disrupts neural transmission in that area, in effect creating a small lesion on demand. Although nobody is quite sure how it works, there is evidence to suggest that certain kinds of TMS improve performance in memory and reasoning tasks.



The death of free will?

Screening, privacy and enhancement are all important issues, to be sure. For many critics, though, they are side-shows. The really uncomfortable questions raised by brain science are those that go to the heart of what it is to be human. Or, more specifically, what philosophers and theologians have claimed is the heart of what it is to be human.

In the West, at least, that defining quality is the concept of “free will”. Although some philosophers see free will as an illusion that helps people to interact with one another, others think it is genuine—in other words, that an individual faced with a particular set of circumstances really could take any one of a range of actions. That, however, sits uncomfortably with the idea that mental decisions are purely the consequence of electrochemical interactions in the brain, since the output of such interactions might be expected to be an inevitable consequence of the input. It also sits uncomfortably with the separate, but parallel, argument that correct moral choices are the result of a sort of biological decision-making programme, shaped by evolution, rather than being arrived at by abstract reasoning.

Whatever the philosophical arcana of the field, there are already cases where neurotechnology may have a practical effect on people's moral development. Erik Parens of the Hastings Centre, a think-tank in Garrison, New York, is concerned that it could, for example, “reduce the number of ways acceptable to be a person”.

There are already cases where neurotechnology may have a practical effect on people's moral development

To illustrate this point he says that the act of giving a normal, healthy child Ritalin, a drug used to treat so-called hyperactivity, is really “a substantive moral choice”, because it tells that child that he needs to change to be acceptable. If forgetfulness, xenophobia and a whole host of the other eccentricities that make up a person's character become optional traits rather than inevitable ones, people will be more inclined to

discriminate against the bearers of those traits.

Discoveries in neuroscience may also have profound legal implications. Most courts, for example, accept a claim of insanity as a defence in certain criminal cases. If a propensity towards aggression or violence is shown to have a biological basis in the brain, a lawyer may argue that his client could not control his violent urges. Courts may be asked to treat brain-image data as exculpatory evidence, which shows that a suspect is not really guilty of a crime he has committed.

Donald Kennedy, a neuroscientist who is also editor of *Science*, says it is likely that “some extension of the domain of exculpatory conditions” will be made as a result of neuroscientific advances. In any case, each jurisdiction treats insanity claims in its own way, so they may well disagree over whether brain-image data are exculpatory. In Texas, for example, all that a prosecutor needs to demonstrate is that a suspect knew “the difference between right and wrong” at the time of the crime. Even individuals who are clearly insane can be found guilty if they meet this test.

Soul-searching questions

In many ways, therefore, thinkers who are wrestling with questions of free will, the soul and human nature are seeing the terms of their debate altered by modern brain science. But the history of the debate may offer consolation to those who fear that neurotechnology is a hair's breadth from catapulting society into a “post-human future”, as Francis Fukuyama termed it in the title of a recent book. The human soul—or its physiological equivalent—has proved surprisingly elusive.

René Descartes was a philosopher who believed that he had found the exact point in the brain where the body and soul meet. Rather unromantically, the structure he chose was the humble pineal gland. As the author of a popular textbook on the subject dryly notes, however, “this now seems unlikely because pineal tumours do not cause the changes one would expect to find associated with distortion of the soul.” There is a deal of searching to do yet before human nature gives up its secrets.

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Global politics

Partners, not strangers

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From The Economist print edition

Getty

America has become a danger to us all, according to a British bestseller. Can such a view honestly be sustained?

GEORGE ORWELL said that some ideas and opinions were so foolish that you had to belong to the intelligentsia to believe them. Will Hutton is a left-wing British journalist who took time off in mid-career as a visiting fellow at Nuffield College, Oxford, to become an intellectual. On the evidence of this book, he has succeeded brilliantly in proving the wisdom of Orwell's remark.

The World We're In
By Will Hutton

Little, Brown; 409 pages; £17.99

Buy it at
Amazon.co.uk

The title of his new book is a deliberate reference to a previous work. “The State We're In”, which came out seven years ago, was a blanket condemnation of what successive Conservative governments had done to Britain since 1979. You may think that Margaret Thatcher had achieved much in rescuing her country from decades of decline, but apparently not: Britain had become a divided, squalid, appallingly unequal society which badly needed a mixture of socialism, constitutional reform and the admirably long-termist, “stakeholder” capitalism of Germany and Japan. Published in the mid-1990s when the Tories were fading and minds were turning to what Tony Blair's Labour Party might bring in their place, the book became a bestseller in Britain. Sensibly, Mr Blair has largely ignored Mr Hutton's ideas.

That is not, however, Mr Hutton's main concern here. He has a larger target in his sights: the United States of America. In his opinion, America is a divided, squalid, appallingly unequal society which badly needs, well, you can guess the rest. Its sins and weaknesses are infecting the rest of the world, now that America has such economic and political hegemony, and is using it so unilaterally. As a result, advocates Mr Hutton, Britain must throw its lot in with its European cousins, with whom it has far more in common than with those beastly Americans; and together, we can build a glorious European Union to act as an alternative model to the United States, and through that a just international order.

Across the sea

Had Mr Hutton devoted himself to extolling Europe's virtues, and explaining how its current flaws could be cured, he might have produced an interesting book. There is plenty that is good about Europe.

Indeed, one of the healthiest trends in British politics recently has been a new willingness in all the big parties to look across both the English Channel and the Atlantic for lessons on how public policy might be improved. But Mr Hutton says little about this, preferring to dwell first upon how “values” differ markedly between Europe and America, and then on a multi-chapter diatribe against the United States. He cannot, it seems, build his love for Europe on its positive characteristics, but must rely instead on what he sees as America's vices.

The proper title for this book might, as a consequence, have been “The World I'm In”. For Mr Hutton's analysis seems to be of a different world from the one everyone else inhabits. It reads like the sort of books published about America in the Soviet Union in the 1950s and 1960s: a collection of mostly accurate facts put together in such a way as to yield a wholly misleading conclusion. If he believes what he says then he must also believe that 230m Americans, in other words the 80% of Americans who aren't fat cats, are saps, too idiotic to realise that their lives are miserable or so dulled by television and shopping malls that they cannot do the sensible thing, which is to emigrate to Europe. As Orwell also used to say, only a socialist can show such contempt for ordinary people.

If you think your reviewer is exaggerating, then try one paragraph in Mr Hutton's opening chapter: “This, then is contemporary America. If it is rich and entrepreneurial, it is also economically volatile, profoundly unequal and nothing like as productive as it could be...Its democracy, one of the great Enlightenment triumphs...now resembles pre-Enlightenment Europe in its dependence on money and private power. This is the orderly country whose citizens routinely shoot each other. This is where worship at church is rivalled only by worship of the shopping mall. It is becoming a land of individual strangers questing for their inner happiness because the public realm is so corrupted and depleted. It is a country that has burst its limits; an economy that is on the edge. And the whole is overshadowed by a tenacious endemic racism that is the still unresolved legacy of slavery and the civil war.”

Like the Soviet-era writers, Mr Hutton cannot decide whether it is America's success he most dislikes (because it is too powerful) or its impending failure (because the world's leader is so fragile). He rightly points out that any assessment of America's economy based on the peak of its Internet bubble in 1999-2000 would be misleading. Triumphalism on the basis of an inflated stockmarket and rising corporate and consumer debts would be mere self-deception. But he goes further than just believing that America's long-term trend growth rate is, say, 2-3% a year rather than 4-5%. He thinks the whole system is a sham and is heading for a repeat of the 1930s. In that case, though, America is not going to be the hegemonic power about which he also worries so much.

American beauty

Being a broad-minded sort of fellow, Mr Hutton concedes that not everything in America is bad. He likes “Frasier”, “Seinfeld” and Clint Eastwood. His true enemies are a breed he calls American conservatives, who he thinks have captured the commanding heights of the country in the past 30 years and have killed the American liberalism which he admires so much. What this ignores, or merely denigrates, is the fact that whatever power conservative ideas have attained has been the result of democratic elections, and of the perceived failure of previous policies. The time of the greatest social instability, racial strife and economic weakness was, roughly, from the late 1960s until the mid-1980s. What he sees as conservative policies gained credence as a solution to such problems.

Any Americans reading about such anti-American views could be forgiven for rubbing their eyes in disbelief. After all, the Europe that Mr Hutton so admires has given rise to Jean-Marie Le Pen and Pim Fortuyn, to high unemployment and sagging economies, to public disillusionment with political corruption in Germany, France and Italy, to foreign policies that (particularly in France) serve only to hamper multilateral efforts to control Saddam Hussein's weapons programmes. Moreover, if Europe is so fond, as Mr Hutton argues, of “social solidarity”, why do its workers spend so much time on strike or in demonstrations while American ones seem to be more contented with their lot?

Such a one-sided picture of Europe would be just as misleading as Mr Hutton's picture of the United States. But the saddest feature of the past few months has been the spread on both sides of the Atlantic of commentary denigrating the other side using just such caricatures. It is as if the real “clash of civilisations” were that between Europe and America. The truth is that Europe and America are on the same side, even if Mr Hutton does not want to see that.

The World We're In.
By Will Hutton.

Little, Brown; 409 pages; £17.99

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London theatre

Pearly gates

May 23rd 2002
From The Economist print edition

London audiences are spoilt for choice

Vocal harmony

A RARELY seen ancient Greek drama one night, a tragi-comic American play that has become a calling card for itinerant Hollywood stars the next: such is the diversity of the London theatre that a wide array of shows are forever competing for attention. Far less seasonal in its offerings than New York, where Broadway's annual output tends to build towards the Tony Awards in June and then fall quickly away, London has something for everyone at all times of the year. If last month's output didn't appeal, you only had to wait: the current theatrical line-up is full of good things.

You have only until June 8th to catch the Royal National Theatre staging of Euripides's "Bacchai", unless, of course, summer travels take you to the Greek amphitheatre in Epidaurus, where Sir Peter Hall's production takes the stage on two successive evenings, June 28th and 29th. Sir Peter's affinity for Greek work dates back 21 years to a now legendary production of "The Oresteia", an Aeschylus trilogy staged during his tenure as the National's artistic chief. Since then, he has moved on to a somewhat bumpy freelance career, coupling tired star vehicles (Vanessa Redgrave and her daughter, Joely Richardson, in "Lady Windermere's Fan" is a current example) with occasional bursts of inspiration, more often than not in opera.

"Bacchai" serves as a reminder that the 71-year-old director hasn't lost his vigour and bite. Presented in the National's largest auditorium, the Olivier, the production unfolds on a stark Alison Chitty set that plays host to one of the most enduringly brutal of all stories: Dionysus, the god of ecstasy, returns to Thebes in order to wreak the grimmest imaginable havoc on Pentheus, the ruler who is also Dionysus's cousin. Colin Teevan's new translation carries a distinctly post-September 11th air in its depiction of a self-glorifying zealot, decamped to Asia Minor, not to mention the chorus's announcement that "we fear no more the justice of the west".

Even without the contemporary resonances, the play anatomises the seemingly eternal seduction of savagery, an impulse in no way lessened by the fact that, true to Greek form, the grimmest events occur offstage. At the same time, a bravura cast—masked Oresteia-style virtually throughout—accomplishes its own seduction, with David Ryall, William Houston and Greg Hicks leading a protean pack.

All three men represent the sort of thespian mainstays on which the British theatre thrives, even if one could be forgiven of late for wondering whether English actors had all but vanished amid a flood of visiting Americans. While the tabloids play up Gwyneth Paltrow's British stage debut in a Broadway hit, "Proof", against Madonna in "Up For Grabs", an Australian comedy, Matt Damon beat both women to the West End in "This Is Our Youth", proving along the way that Ms Paltrow's screen co-star from "The Talented Mr Ripley" is more than just a pearly set of teeth. Kenneth Lonergan's play began off-Broadway in 1996 and has only ripened over time. A portrait of disaffected liberal rich kids on Manhattan's Upper West Side during the Reagan era, "Youth" keeps pace with the often hilarious cadences of American slackerspeak while monitoring a very real anomie marching to its own restless beat. And playing the bullying Dennis, the dope-dealing, on-again-off-again, friend to Casey Affleck's luckless Warren, Mr Damon charts the psychic cost of a generation bred for success and yet forever branded by pain and self doubt.

It's not easy to find a new British play among all the imports, which include an entire American season at

the Donmar Warehouse, where a teary Ms Paltrow is holding forth. Meanwhile, the experimental wing of the British theatre is scarcely helped by “The PowerBook”, a collaborative take on Jeanette Winterson's novel, published in 2000, that has brought out the very worst self-indulgence in Fiona Shaw and her long-time director and friend, Deborah Warner.

Thank heavens, by comparison, for the unassuming virtues of “The Glee Club”, a Richard Cameron play now in the West End following a sell-out run earlier this year at a tiny pub theatre in west London, the Bush.

Arriving without fanfare, Mr Cameron's play posits a slice of north-of-England life, circa 1962, focusing on five miners and the timorously bespectacled mining engineer (and resident pianist) who keeps them in tune. As the title suggests, music plays its role in a narrative that is somewhat akin to that of “The Full Monty”, itself now a West End and Broadway musical. But whereas stripping gave the dispossessed men of “Monty” their sense of self worth, in “The Glee Club” vocal harmony is the main male refuge from loneliness and loss.

“The Glee Club” is sweet-tempered and sometimes rueful and hasn't come hellbent on shattering box-office records. Its high spirits, too, are far more engaging than the season's reigning musical smash, “Chitty Chitty Bang Bang”. Just listen to its cast put across such a standard as “Que Sera Sera”, and there's nowhere you'd rather be.

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Studies of feminism

Nice girls

May 23rd 2002
From The Economist print edition

THE term “feminism” (or rather *féminisme*) was first used in France in the 1880s, and almost immediately became the subject of competing definitions. The social movement it described had, in fact, already been gathering momentum for a century, and had always been a collage of differing viewpoints rather than a monolithic entity. Back in the 19th century, some radical women preached free love while most emphasised sexual purity, some emphasised women's contribution in the home while others sought to expand their opportunities outside it.

Estelle Freedman, an American academic, admirably acknowledges this complexity in her overview of feminism's history. She shows it to be as multifaceted and historically determined as any other ideology, beginning with her illuminating analysis of its roots in the liberal rights theories initially fostered by the growth of capitalism in the 18th century. Paradoxically, while capitalism created the intellectual conditions for feminist ideas to take root, it actually made women more dependent on men economically, widening the gap between paid and unpaid labour and making middle-class female idleness not only possible but a status symbol. Central to Ms Freedman's approach is her emphasis on the relationship between the value of women's labour and their power in any given society.

Ranging from ancient civilisations to the present day, from China to Peru, the scope of this book is enormous. The result is inevitably selective. British readers may be surprised that the name Pankhurst does not appear in the index, but they will be fascinated to learn about the symbiotic, not always harmonious, relationship between the women's movement in America and the fight against racism, dating from the days of slavery.

While Ms Freedman's outlook is optimistic, the same could not be said of Phyllis Chesler whose book leaves a bitter taste in the mouth. “Woman's Inhumanity to Woman” combines a variety of different approaches—from primate research to sociology, from psychoanalysis to autobiography—to explore the crueller aspects of female relationships both inside and outside the family. The most interesting section, based on interviews, concerns women's treatment of other women in the workplace, particularly when they have to compete for a token position in a male-dominated office. Yet the writing is uneven: attempts at literary criticism are as unconvincing as the biological determinism which elides humans with monkeys. This is a book by a disillusioned idealist, a women's liberation activist astounded by the fact that she has not received unalloyed benevolence from her “sisters” over the years. When she tells us, with horror, that “verbal aggression” between women was found in 82% of societies in an anthropological study, one is tempted to wonder where the utopian 18% are to be found. Ironically, the feminist tendency to idealise women reveals itself as uncomfortably close to men's sexist assumption that women should always be “nice”.

No Turning Back: The History of Feminism and the Future of Women.
By Estelle B. Freedman.
Ballantine Books; 446 pages; $26.
Profile Books; £20

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Buy it at
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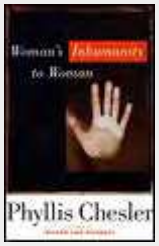
Amazon.co.uk

Woman's Inhumanity to Woman
By Phyllis Chesler



Nation Books; 552 pages; $24.95

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India and Pakistan

Old foes, still foes

May 23rd 2002 | NEW DELHI
From The Economist print edition

Pakistan was carved out of India 55 years ago. The roots of conflict go back to that partition

Get article background

INDIA and Pakistan are at it again. An escalation of conflict, long threatened, could lead to their fourth war since partition, their first as full nuclear powers. Sumit Ganguly surveys their enmity, which began when Pakistan was carved out of India as a homeland for the subcontinent's Muslims and is sustained by their dispute over Kashmir, India's only Muslim-majority state.

Conflict Unending: India-Pakistan Tensions Since 1947
By Sumit Ganguly

Columbia University Press; 187 pages; $18.50 and £13 (paperback)

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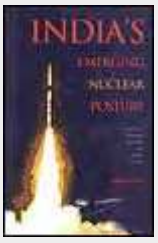
India's secularism and Pakistan's Islamic identity are deep differences. But wars may start in short-term miscalculation. Pakistan is especially prone to this, Mr Ganguly believes, because public debate there is less free, opinion less varied than in India. Yet India's liberal traditions also eroded in the 1990s, which raises the risk that it may make errors of judgment. Nuclear weapons, he thinks, make total war less likely, limited conflict more so. As for Kashmir, the core of their dispute, no solution is in prospect.

THOUGH it opens dauntingly, with eight pages of acronyms, this is a lucid account of the likely evolution of India's nuclear-weapons policy by an adviser to the American ambassador to India. Ashley Tellis thinks India can deter nuclear attacks with a few, smallish nuclear weapons. India has undertaken not to use atomic weapons first. Its nuclear posture includes, he believes, separation of warheads from launchers to minimise mistakes and a response time calibrated to avoid panic reaction. Mr Tellis doubts that Pakistan or China—another possible foe—would make a nuclear first strike, as neither could be sure of destroying India's capacity to hit back. The United States, he concludes, should not try to roll back India's atomic-weapons capacity, but encourage a nuclear doctrine that reduces risk.

India's Emerging Nuclear Posture: Between Recessed Deterrent and Ready Arsenal
By Ashley J. Tellis



Rand; 885 pages; $40 and $25.
Eurospan; £31.50 and £21.50

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INDIA'S 120m-130m Muslims would make a country almost as populous as Pakistan. In theory, they are fully accepted as part of the national mix. But tolerance can break down, as happened recently in the western state of Gujarat: to avenge the burning of 58 Hindu pilgrims by a Muslim mob, Hindus ran riot. By one count, 2,000 people, most of them Muslims, died. Ashutosh Varshney offers to explain why some places in India are peaceful, others nearby prone to ethnic violence. In Gujarat, for example, Ahmedabad, the commercial capital, is riot prone but Surat, a textile centre, is not. Peaceful areas, Mr Varshney finds, have strong civic institutions—trade unions, professional associations—that cross the communal divide. Politicians who want polarisation hire gangs to stir up violence; whereas quieter cities have institutionalised peace systems to prevent tensions

Ethnic Conflict and Civic Life: Hindus and Muslims in India
By Ashutosh Varshney

Yale University Press; 384 pages; $45 and £35

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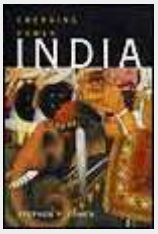
from snapping.

STEPHEN COHEN is betting that India will somehow manage the consequences of partition: its debilitating quarrel with Pakistan and its outbreaks of inter-religious violence. “Emerging Power” is an inspector-general's report on India's fitness for a serious role on the world stage, and the verdict is cautiously positive.

Mr Cohen does not miss much. He delves into the bureaucracy, assesses the strengths and weaknesses of the military, parses the ideologies that shape policies and gauges (too optimistically, perhaps) the likelihood of swift economic growth. By the end of the decade, he thinks, people will be comparing India's prospects with those of China, its fellow population billionaire. Mr Cohen's report is so thorough and, on most issues, so unblinking, you wonder if his optimism is quite cautious enough.

India: Emerging Power
By Stephen P. Cohen



Brookings Institution Press; 377 pages; $28.95. Oxford University Press India; 495 rupees

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About sponsorship

Stephen Jay Gould

May 23rd 2002
From The Economist print edition

Stephen Jay Gould, palaeontologist and populariser, died on May 20th, aged 60

THE child, as Stephen Jay Gould himself observed in the prologue of one of his many books, is father to the man. That child, a nerdy schoolboy growing up in New York, is reflected endlessly in the popular essays that made him famous. There is no false modesty. No effortless superiority. It is the prose of the school swot responding to a bullying outside world by becoming more and more swotty.

And the outside world certainly did bully Mr Gould. His swotting eventually delivered him to Harvard, where he was appointed an assistant professor in 1967. It was an exciting time for evolutionary biology. The neo-Darwinian synthesis of 19th-century natural selection with 20th-century mathematical population genetics, orchestrated by Ernst Mayr, one of Mr Gould's senior colleagues at Harvard, was coming to power. A lesser man would have accepted the prevailing ideology and surfed the wave to academic preferment.

But Mr Gould's potterings among the fossils had raised doubts in his mind. They suggested to him that neo-Darwinism was too neat, too pat, to explain the record in the rocks. Neo-Darwinism predicts smooth and gradual change. That is not what he saw. Instead, the rocks record long periods when those fossils appear to stay the same, interspersed with eye-blink changes to new species.

In collaboration with Niles Eldredge, of the American Museum of Natural History in New York (the institution whose dinosaur skeletons had inspired his boyish enthusiasm for palaeontology), Mr Gould worked this observation up into a theory which the two researchers dubbed the punctuated-equilibrium model. Instead of continual and improving refinement, as neo-Darwinism predicts, Mr Gould and Mr Eldredge saw a world in which an optimum form is rapidly reached, and then stays put until suddenly replaced—perhaps because of some arbitrary and catastrophic external event.

The honourable schoolboy

This went down badly with the neo-Darwinists, though it struck a chord with many of Mr Gould's fellow palaeontologists. Those who worked with what is alive today saw only gradual change—and had the maths on their side. Those who worked with what was alive in an infinity of yesterdays complained that even though they had no good explanation of why punctuated-equilibrium theory worked, you couldn't argue with the evidence in the rocks, maths or no maths.

At the same time as he published this heresy, Mr Gould was making his name as a writer of popular scientific essays. These appeared monthly in *Natural History*, and were widely syndicated and regularly collected in book form. Perhaps the most famous of them is “Bully for *Brontosaurus*”, in which he explains how the dead-hand of taxonomic bureaucracy decreed in the face of popular opinion that this famous dinosaur was actually called *Apatosaurus*.

The essays, though, also served as propaganda—peddling the Gould version of evolution to a wider public. That trend reached its climax with a book called “Wonderful Life”, which analysed the creatures in a piece of ancient rock called the Burgess shale. This formation provides a unique window on the world 540m years ago, when animal life was getting going in a big way. Many of its fossils are of soft-bodied creatures that are not preserved elsewhere. Many of them are also weird-looking—not, at first glance, related to anything now alive. That led Mr Gould to muse on the contingent nature of life. If this group

rather than that had been wiped out, the future would have been different, and the vertebrates, let alone humanity, might never have arisen.

Such musings led him into further conflict with orthodox neo-Darwinians, led by an equally skilful writer in the shape of Richard Dawkins—an Oxford man, and an exponent of effortless superiority if ever there was one. The rhetoric got nasty. Mr Gould's opponents referred to punctuated-equilibrium theory as evolution by jerks. He, in turn, lambasted neo-Darwinism as evolution by creeps. Yet Mr Gould was no anti-Darwinian. He believed to the end that natural selection was the motor of evolution and stood shoulder to shoulder with the neo-Darwinists against the common creationist enemy that continues to stalk parts of American society—most worryingly its school system.

Today, the neo-Darwinian thesis and the Gouldian antithesis may be moving towards some sort of synthesis. Though punctuated-equilibrium theory as originally conceived has made few converts, the role of accidents in evolution is more widely appreciated, as asteroid collisions and nearby supernovae are recognised as hazards that can wipe out whole groups of organisms arbitrarily. That this clears space for natural selection to do its work is now accepted wisdom.

In 1982, Mr Gould was diagnosed with mesothelioma, the cancer that eventually killed him. Everything biological was grist to his mill, and he wrote about that in his essays, too—even using it, in a piece entitled “The median isn't the message” to illuminate the different meanings of the word “average”. When his disease was discovered, he read that the median time from diagnosis to death was eight months. He survived for 20 years.

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Overview

May 23rd 2002
From The Economist print edition

America's consumers are feeling bullish. The University of Michigan's index of consumer sentiment defied predictions of a decline, rising from 93.0 in April to 96.0 in May, its highest since December 2000. Housing starts fell by 5.4% in April, a bigger decline than expected, as new construction eased from its record rate in the winter.

Evidence that America's economy is recovering more slowly than some earlier forecasts came when the Conference Board said that its index of leading indicators fell by 0.4% in April. America's trade deficit also narrowed slightly, to $421 billion in the year to March.

Consumer-price inflation in the **euro area** was revised upwards from 2.2% to 2.4% in the year to April. Industrial production fell by 2.9% in the year to March. **Dutch** GDP stagnated in the first quarter of 2002, for the third quarter in a row. Growth in the year to March was nil, the weakest performance for nine years. **Italy's** consumer prices rose by 2.4% in the year to April.

Britain's underlying retail-price inflation remained unchanged at 2.3% in the year to April, slightly below the Bank of England's 2.5% target. With interest rates unchanged at a 38-year low of 4%, consumers are borrowing heavily: mortgage lending reached a record £16.9 billion ($24.6 billion) in April.

Gold prices hit $319 per ounce, a two-year high.

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Output, demand and jobs

May 23rd 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 5.2	+ 4.1 Q4	+ 3.8	+ 3.9	+ 2.5 Q4	+ 5.0 Q1	6.3 Apr	6.7
Austria	– 0.7	– 0.4 Q4	+ 1.3	+ 2.7	– 0.2 Feb	+ 0.7 Jan	4.0 Mar	3.4
Belgium	– 1.7	– 0.7 Q4	+ 1.4	+ 3.1	–10.8 Mar	+ 6.6 Feb	10.5 Apr*	10.2
Britain	+ 0.3	+ 1.0 Q1	+ 1.9	+ 2.9	– 5.9 Mar	+ 5.7 Mar	5.1 Mar†	5.1
Canada	+ 2.0	+ 0.9 Q4	+ 2.7	+ 3.5	– 0.8 Feb	+ 6.6 Feb	7.6 Apr	7.0
Denmark	+ 0.5	+ 0.4 Q4	+ 1.6	+ 2.5	nil Mar	+ 2.1 Feb	5.0 Mar	5.4
France	– 1.4	+ 0.5 Q4	+ 1.5	+ 2.9	– 0.4 Mar	– 0.1 Mar	9.1 Mar	8.7
Germany	+ 0.7	– 1.2 Q1	+ 1.0	+ 2.6	– 3.8 Mar	– 4.5 Mar	9.6 Apr**	9.4
Italy	+ 0.6	+ 0.1 Q1	+ 1.4	+ 2.9	– 7.6 Mar	– 0.4 Feb	9.0 Jan	9.8
Japan	– 4.8	– 1.9 Q4	– 1.0	+ 1.1	– 9.8 Mar	– 4.3 Mar	5.2 Mar	4.7
Netherlands	nil	nil Q1	+ 1.5	+ 3.0	– 2.0 Mar	+ 0.8 Feb	2.2 Apr§	2.0
Spain	+ 0.7	+ 2.3 Q4	+ 2.1	+ 3.3	– 9.3 Mar	na	12.9 Mar	13.1
Sweden	+ 1.4	+ 1.1 Q4	+ 1.8	+ 3.0	+ 1.6 Mar	+ 4.3 Mar	3.8 Mar*	3.9
Switzerland	+ 0.1	+ 0.4 Q4	+ 1.1	+ 2.3	– 1.0 Q4	+ 0.9 Mar	2.5 Apr*	1.7
United States	+ 5.8	+ 1.6 Q1	+ 2.8	+ 3.5	– 2.0 Apr	+ 6.1 Mar	6.0 Apr	4.5
Euro area	– 0.8	+ 0.7 Q4	+ 1.3	+ 2.9	– 2.9 Mar	+ 1.3 Feb	8.4 Mar	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 1.8	– 0.9 Q4	na	na	– 4.9 Mar	+ 1.8 Feb	9.5 Mar*	9.6
Greece	na	+ 3.7 Q4	na	na	– 2.0 Feb	+ 8.4 Jan	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.6 Apr*	1.6
Ireland	na	nil Q4	na	na	+14.7 Mar	+ 5.0 Feb	4.2 Apr	3.6
Luxembourg	na	+ 3.52001	na	na	+ 2.4 Feb	+ 5.4 Dec	2.8 Mar	2.6
New Zealand	+ 2.6	+ 2.9 Q4	na	na	+ 3.5 Q4	+ 8.2 Q1	5.3 Q1	5.4
Norway	+ 1.0	+ 1.8 Q4	na	na	– 2.5 Mar	+ 3.9 Apr	3.7 Q1	3.7
Portugal	+ 1.8	+ 1.0 Q4	na	na	+ 2.3 Mar	– 0.4 Mar	4.4 Q1*	4.2

*Not seasonally adjusted. †Jan-Mar; claimant count rate 3.2% in Apr. §Jan-Mar. **EU harmonised rate 8.1% in Apr.

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Prices and wages

May 23rd 2002
From The Economist print edition

% change at annual rate

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.9	Q1	+ 6.0	+ 2.5	+ 2.5	+ 0.5	Q1	+ 5.2	+ 4.3	Q1	+ 5.6
Austria	+ 1.8	Apr	+ 3.0	+ 1.7	+ 1.7	– 0.5	Apr	+ 2.9	+ 2.4	Apr	+ 2.6
Belgium	+ 1.8	Apr	+ 2.8	+ 1.9	+ 1.7	+ 0.4	Mar	+ 3.2	+ 3.1	Q1	+ 1.9
Britain	+ 1.5	Apr	+ 1.8	+ 2.1	+ 2.5	+ 0.2	Apr	+ 0.6	+ 2.9	Mar	+ 5.0
Canada	+ 1.7	Apr	+ 3.6	+ 1.5	+ 2.0	– 1.2	Mar	+ 2.4	+ 3.3	Feb	+ 0.3
Denmark	+ 2.4	Apr	+ 2.7	+ 2.1	+ 2.1	+ 0.3	Apr	+ 3.6	+ 4.1	Q4	+ 3.8
France	+ 2.0	Apr	+ 1.8	+ 1.6	+ 1.5	– 0.7	Mar	+ 2.9	+ 4.1	Q4	+ 5.0
Germany	+ 1.6	Apr	+ 2.9	+ 1.5	+ 1.4	– 0.5	Apr	+ 4.1	+ 2.4	Mar	+ 1.6
Italy	+ 2.4	Apr	+ 3.1	+ 2.0	+ 2.0	– 1.3	Mar	+ 4.2	+ 3.2	Mar	+ 2.0
Japan	– 1.2	Mar	– 0.7	– 1.0	– 0.6	– 0.7	Apr	+ 1.3	– 1.0	Mar	+ 0.6
Netherlands	+ 3.6	Apr	+ 4.9	+ 3.3	+ 2.5	– 1.8	Mar	+ 5.7	+ 3.8	Mar	+ 4.2
Spain	+ 3.6	Apr	+ 4.0	+ 2.5	+ 2.4	nil	Mar	+ 3.2	+ 3.7	Q4	na
Sweden	+ 2.5	Apr	+ 2.8	+ 2.4	+ 2.1	– 0.4	Mar	+ 2.6	+ 2.6	Feb	+ 2.8
Switzerland	+ 1.1	Apr	+ 1.2	+ 0.7	+ 1.1	– 1.5	Apr	+ 0.9	+ 2.5	2001	+ 1.3
United States	+ 1.6	Apr	+ 3.3	+ 1.5	+ 2.3	– 2.0	Apr	+ 3.7	+ 3.4	Apr	+ 4.3
Euro area	+ 2.4	Apr	+ 2.9	+ 1.9	+ 1.7	– 0.8	Mar	+ 4.2	+ 3.0	Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Apr	+ 2.9	na	na	– 1.0	Apr	+ 2.9	+ 4.3	Q4	+ 5.0
Greece	+ 3.8	Apr	+ 3.5	na	na	+ 3.7	Mar	+ 4.3	na		na
Iceland	+ 5.9	May	+ 5.5	na	na	+ 7.4	May	+ 5.7	+ 8.7	Mar	+ 9.2
Ireland	+ 4.8	Apr	+ 5.6	na	na	+ 1.4	Mar	+ 3.1	+ 8.1	Q4	+ 6.4
Luxembourg	+ 2.1	Apr	+ 2.8	na	na	– 2.5	Feb	+ 4.5	+ 3.1	Feb	+ 4.8
New Zealand	+ 2.6	Q1	+ 3.1	na	na	+ 1.8	Q4	+10.7	+ 2.1	Q1	+ 1.8
Norway	+ 0.5	Apr	+ 3.8	na	na	– 4.7	Apr	+ 9.8	+ 4.5	Q4	+ 4.3
Portugal	+ 3.6	Apr	+ 4.5	na	na	– 5.0	Mar	+ 4.7	+ 2.4	Apr	na

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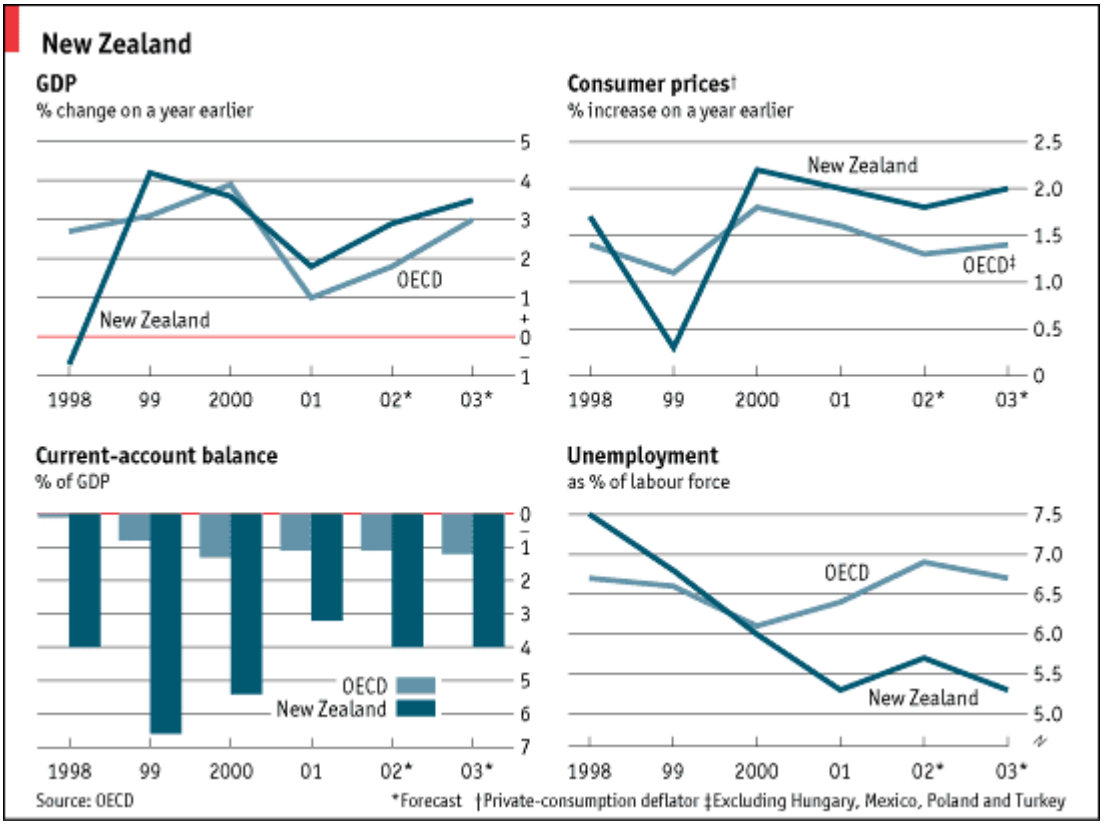
New Zealand

May 23rd 2002
From The Economist print edition



New Zealand's economy has been “remarkably resilient” in the past year, according to a report by the OECD. Although the world economy had a poor 2001, the New Zealand economy was sustained by strong consumer-spending growth and helped by high prices for its exports and by a weak exchange rate. A fall in commodity prices and tourism receipts slowed the economy after September 11th, but the OECD thinks that risks to growth have receded since the turn of the year. Further interest-rate increases may be needed in the course of the year to keep inflation within the target range of 0-3%. Although fiscal policy has been prudent, the OECD questions some investment decisions, such as the creation of a retail bank operating through post offices. It also regrets the reversal of some of New Zealand's experiments with competition in public services.

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Money and interest rates

May 23rd 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (May 22nd 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.0	+13.9	Mar	4.90	4.98	5.39	6.23	6.08	7.25‡
Britain	+ 8.0	+ 5.7	Apr	4.13	5.13	4.74	5.24	5.14	6.21
Canada	+12.8	+ 5.7	Apr	2.60	4.40	4.15	5.62	5.92	7.20
Denmark	+ 5.8	+ 5.3	Mar	3.80	4.90	4.48	5.33	5.35	7.00
Japan	+32.6	+ 3.6	Apr	0.02	0.02	0.02	1.38	1.29	1.49
Sweden	+ 8.8	+ 6.2	Dec	4.24	3.99	5.06	5.58	5.34	5.68
Switzerland	+ 5.5	+ 3.4	Apr	1.24	3.22	2.06	3.28	3.44	4.23
United States	+ 5.8	+ 8.3	Apr	1.80	3.89	3.17	5.10	5.40	6.97
Euro area†	+ 5.8	+ 7.3	Mar	3.49	4.56	4.21	5.09	5.07	5.91

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. ‡ New series. Benchmarks: US 30-year 5.63%, Japan No.238 1.38%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

May 23rd 2002
From The Economist print edition

1995=100

	May 14th	May 21st*	% change on one month	% change on one year
Dollar index				
All items	68.8	68.9	– 1.3	– 4.0
Food	68.7	69.6	– 0.5	+ 2.3
Industrials				
All	69.1	67.8	– 2.4	–11.6
Nfa†	69.8	68.4	– 0.3	–10.7
Metals	68.5	67.3	– 4.2	–12.4
Sterling index				
All items	75.0	74.6	– 1.8	– 5.8
Euro index				
All items	100.4	98.6	– 4.4	– 9.4
Yen index				
All items	94.3	90.9	– 5.7	– 2.9
Gold				
$ per oz	307.75	316.75	+ 4.6	+12.0
West Texas Intermediate				
$ per barrel	29.08	26.96	+ 3.0	– 8.4

* Provisional. † Non-food agriculturals.

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Stockmarkets

May 23rd 2002
From The Economist print edition

Market indices

	May 22nd	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,340.9	3,440.0	3,252.2	+ 0.5	- 2.9	- 0.6	+ 8.3
Austria (ATX)	1,325.7	1,357.2	1,114.4	- 0.7	-23.7	+16.3	+21.0
Belgium (Bel 20)	2,781.0	2,899.8	2,622.4	- 3.2	-24.5	- 0.0	+ 4.0
Britain (FTSE 100)	5,151.9	5,323.8	5,024.1	- 2.0	-25.7	- 1.3	- 1.0
Canada (Toronto Composite)	7,638.4	7,958.1	7,418.1	- 0.9	-32.9	- 0.7	+ 3.3
Denmark (KBX)	218.9	233.4	213.3	- 1.1	-27.4	- 2.6	+ 1.3
France (SBF 250)	2,882.4	3,081.9	2,694.1	- 2.8	-34.4	- 3.3	+ 0.6
(CAC 40)	4,326.3	4,688.0	4,239.0	- 3.2	-37.5	- 6.5	- 2.6
Germany (Xetra DAX)	4,919.5	5,462.6	4,745.6	- 3.0	-39.0	- 4.7	- 0.8
Italy (BCI)	1,408.5	1,513.0	1,344.9	- 3.0	-35.5	- 1.7	+ 2.3
Japan (Nikkei 225)	11,962.0	11,962.0	9,420.9	+ 2.7	-69.3	+13.5	+19.8
(Topix)	1,129.7	1,129.7	922.5	+ 3.9	-60.8	+ 9.4	+15.6
Netherlands (AEX)	486.7	531.2	478.3	- 3.4	-30.6	- 4.0	- 0.0
Spain (Madrid SE)	804.4	848.1	773.2	- 3.1	-29.8	- 2.4	+ 1.6
Sweden (Affarsvarlden Gen)	198.5	236.8	198.5	- 3.6	-50.4	-14.2	- 8.8
Switzerland (Swiss Market)	6,585.9	6,694.1	6,105.2	- 1.3	-21.7	+ 2.6	+ 8.7
United States (DJIA)	10,157.9	10,635.3	9,618.2	- 0.8	-13.4	+ 1.4	+ 1.4
(S&P 500)	1,086.0	1,172.5	1,049.5	- 0.5	-28.9	- 5.4	- 5.4
(Nasdaq Comp)	1,673.5	2,059.4	1,573.8	- 3.0	-66.9	-14.2	-14.2
Europe (FTSE Eurotop 300)*	1,194.5	1,279.7	1,185.5	- 3.3	-29.9	- 5.3	- 1.4
Euro area (FTSE Ebloc 100)*	1,026.4	1,125.1	1,013.0	- 3.7	-33.8	- 7.7	- 3.9
World (MSCI)†	981.8	1,024.4	937.0	nil	-32.2	na	- 2.2
World bond market (Salomon)‡	458.3	458.3	430.3	+ 2.2	- 0.4	na	+ 4.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

May 23rd 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† May 22nd	Exchange rate trade-weighted† year ago	Currency units per $ May 22nd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	+ 1.5 Mar	− 9.2 Q4	− 3.6	− 3.7	76.7	72.8	1.79	1.93	2.62	1.66	1.45	0.1
Austria	− 3.0 Feb	− 3.6 Feb	− 2.2	− 2.0	100.4	99.7	1.08	1.16	1.57	–	0.87	-0.3
Belgium	+ 11.5 Mar	+ 13.0 Dec	+ 4.8	+ 4.8	99.5	98.1	1.08	1.16	1.57	–	0.87	nil
Britain	− 48.0 Mar	− 25.1 Q4	− 2.1	− 2.1	104.2	107.6	0.69	0.70	–	0.64	0.55	-0.8
Canada	+ 37.6 Feb	+ 18.9 Q4	+ 2.1	+ 2.3	78.0	78.0	1.54	1.55	2.24	1.42	1.24	1.0
Denmark	+ 7.0 Mar	+ 3.4 Mar	+ 2.2	+ 2.0	102.3	100.8	8.03	8.67	11.7	7.44	6.47	2.2
France	+ 5.4 Mar	+ 23.6 Mar	+ 1.7	+ 1.7	102.2	100.6	1.08	1.16	1.57	–	0.87	-2.0
Germany	+ 92.3 Mar	+ 13.3 Mar	+ 0.4	+ 0.4	99.2	97.4	1.08	1.16	1.57	–	0.87	-2.8
Italy	+ 8.5 Feb	+ 1.5 Feb	+ 0.1	nil	72.9	71.8	1.08	1.16	1.57	–	0.87	-1.4
Japan	+ 72.6 Mar	+ 96.1 Mar	+ 2.5	+ 2.6	133.6	141.8	124	120	181	115	–	-8.0
Netherlands	+ 22.4 Feb	+ 13.6 Q1	+ 3.7	+ 4.0	98.5	96.9	1.08	1.16	1.57	–	0.87	0.1
Spain	− 37.9 Feb	− 15.8 Feb	− 2.2	− 1.8	74.6	73.6	1.08	1.16	1.57	–	0.87	-0.3
Sweden	+ 13.3 Mar	+ 7.4 Mar	+ 2.5	+ 2.8	76.8	76.5	9.9	10.5	14.4	9.14	7.95	2.1
Switzerland	+ 1.8 Mar	+ 24.6 Q4	+ 9.5	+ 9.6	114.4	106.8	1.57	1.77	2.29	1.45	1.26	na
United States	−421.4 Mar	−417.4 Q4	− 4.2	− 4.4	117.1	119.8	–	–	1.46	0.93	0.81	-1.0
Euro area	+ 50.3 Feb	− 5.8 Feb	+ 0.3	+ 0.4	80.0	76.5	1.08	1.16	1.57	–	0.87	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.4 Mar	+ 7.5 Mar	na	na	78.5	77.1	1.08	1.16	1.58	–	0.87	3.2
Greece	− 19.1 Dec	− 7.2 Dec	na	na	57.7	57.0	1.08	1.16	1.58	–	0.87	0.4
Iceland	+ 0.1 Mar	− 0.4 Q4	na	na	na	na	92.7	101	135	85.9	74.7	-0.5
Ireland	+ 32.2 Feb	− 1.1 Q4	na	na	88.5	85.8	1.08	1.16	1.58	–	0.87	0.1
Luxembourg	− 2.9 Feb	+ 0.9 Q4	na	na	99.5	98.1	1.08	1.16	1.58	–	0.87	2.2
New Zealand	+ 0.3 Mar	− 1.6 Q4	na	na	88.1	80.6	2.12	2.37	3.09	1.96	1.71	0.1
Norway	+ 24.7 Apr	+ 22.2 Feb	na	na	102.9	95.2	8.08	9.22	11.8	7.49	6.51	14.0
Portugal	− 13.6 Feb	− 10.1 Feb	na	na	89.6	88.6	1.08	1.16	1.58	–	0.87	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

Text refers only to the first 16 countries listed

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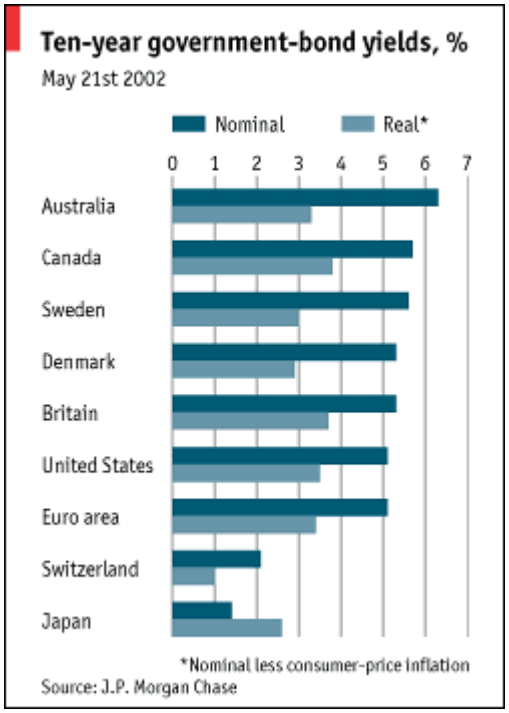
Ten-year government-bond yields

May 23rd 2002
From The Economist print edition



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Overview

May 23rd 2002
From The Economist print edition

Taiwan's economy is perking up. After three quarters of negative growth, GDP rose by 0.9% in the year to the first quarter. Industrial production rose by 7.5% in the year to April, buoyed by the global recovery and by demand for electronic goods.

Malaysia's economy is also recovering. Its GDP rose by 1.1% in the year to the first quarter, compared with a fall of 0.5% in the year to the fourth quarter. Consumer-price inflation slowed to 1.9% in the year to April, compared with 2.1% in the year to March.

Industrial output in **Poland** fell by 4.4% in April, after a 10.8% rise in March; over the 12 months to April, it rose by only 0.2%.

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Consumer confidence

May 23rd 2002
From The Economist print edition

Among emerging economies, consumer confidence has risen fastest in South Korea, according to an index compiled by RoperASW, a research consultancy. The index is based on queries about consumers' confidence: whether they expect their personal economic situation to improve over the next 12 months, and whether now is a good time to buy the goods they want and need.

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Economy

May 23rd 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.6	Q1	+12.1	Apr	– 1.3	Apr	+25.6	Apr	+21.2	2001§	226.7	Feb
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.2	Mar	– 9.6	Mar	+12.0	Q4	110.9	Apr
India	+ 6.3	Q4	+ 2.4	Mar	+ 5.2	Mar	– 5.9	Mar	– 0.1	Q4	52.5	Apr
Indonesia	+ 2.5	Q1	– 2.2	Q3	+13.3	Apr	+26.0	Mar	+ 8.4	Q3	27.2	Mar
Malaysia	+ 1.1	Q1	– 3.5	Mar	+ 1.9	Apr	+14.1	Mar	+ 6.9	Q4	31.5	Mar
Philippines	+ 3.8	Q4	+ 2.2	Feb‡	+ 3.6	Apr	+ 2.3	Mar	+ 4.9	Jan	14.6	Apr
Singapore	– 1.7	Q1	– 2.9	Mar	– 0.9	Mar	+ 5.3	Mar	+17.9	Q4	76.6	Apr
South Korea	+ 5.7	Q1	+ 4.4	Mar	+ 2.5	Apr	+ 9.3	Apr	+ 7.6	Mar	106.0	Mar
Taiwan	+ 0.9	Q1	+ 7.5	Apr	+ 0.2	Apr	+18.3	Apr	+22.0	Q1	132.9	Apr
Thailand	+ 2.1	Q4	+ 8.4	Mar	+ 0.4	Apr	+ 3.2	Mar	+ 6.6	Mar	32.9	Mar
Argentina	–10.7	Q4	–16.7	Mar	+18.4	Apr	+ 9.8	Mar	– 4.4	Q4	12.8	Mar
Brazil	– 0.7	Q4	– 3.8	Mar	+ 8.0	Apr‡	+ 4.7	Apr	–19.8	Mar	36.7	Mar
Chile	+ 1.7	Q4	– 2.1	Mar	+ 2.5	Apr	+ 1.7	Apr	– 0.9	Q4	14.0	Feb
Colombia	+ 1.7	Q4	– 0.5	Feb	+ 5.7	Apr	+ 0.4	Feb	– 1.7	Q4	10.1	Mar
Mexico	– 2.0	Q1	– 7.6	Mar	+ 4.7	Apr	– 9.3	Mar	–17.1	Q4	46.2	Mar
Peru	+ 1.6	Mar	+ 0.3	Feb	+ 0.1	Apr	+ 0.1	Mar	– 1.1	Q4	8.3	Mar
Venezuela	+ 2.8	Q3	+ 9.7	Jan	+18.7	Apr	+ 9.8	Q4	+ 4.4	Q4	6.6	Feb
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.5	Feb	– 8.6	Jan	– 0.1	Q4	12.6	Jan
Israel	– 4.2	Q1	– 6.9	Feb	+ 5.0	Apr	– 5.9	Apr	– 1.7	Q4	24.0	Apr
South Africa	+ 1.8	Q4	+ 3.9	Mar	+ 8.0	Apr	+ 3.8	Mar	– 0.2	Q4	6.0	Mar
Turkey	–10.4	Q4	+18.7	Mar	+52.7	Apr	– 7.4	Feb	+ 4.3	Feb	20.5	Mar
Czech Republic	+ 3.2	Q4	+ 4.1	Mar	+ 3.2	Apr	– 2.7	Mar	– 2.7	Q4	15.9	Apr
Hungary	+ 3.3	Q4	+ 4.2	Mar	+ 6.1	Apr	– 2.2	Mar	– 1.4	Mar	10.1	Apr
Poland	+ 0.3	Q4	+ 0.2	Apr	+ 3.0	Apr	–11.1	Mar	– 7.2	Mar	26.1	Mar
Russia	+ 4.3	Q4	+ 4.3	Apr	+16.3	Apr	+45.0	Mar	+31.2	Q1	33.2	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+16.3	Jan	+ 3.3	Apr	– 1.0	Apr	+ 0.3	2001†	4.0	Mar
Saudi Arabia	+ 1.7	2001§	na		nil	Feb	+37.5	2001§	+ 8.3	2001	17.6	Mar

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

May 23rd 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 22nd		Dec 31st 2001	
	May 22nd	year ago	May 22nd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.1	na	1,632.5‡	-2.2	- 4.7	- 4.7
Hong Kong	7.80	7.80	11.4	1.85	11,795.2	-0.4	+ 3.5	+ 3.5
India	49.0	47.0	71.4	7.00	3,175.5	-6.5	- 2.7	- 4.1
Indonesia	9,065	11,421	13,222	16.61	511.6	-5.1	+ 30.5	+ 49.7
Malaysia	3.80	3.80	5.54	3.25	772.9	-1.8	+ 11.0	+ 11.0
Philippines	49.8	50.4	72.6	5.56	1,319.6	-2.8	+ 13.0	+ 17.1
Singapore	1.79	1.80	2.61	0.94	1,737.5	-0.6	+ 7.0	+ 10.2
South Korea	1,237	1,287	1,805	4.85	863.1	+0.1	+ 24.4	+ 32.1
Taiwan	34.3	33.4	50.0	2.55	5,541.6	-6.2	- 0.2	+ 1.9
Thailand	42.8	45.5	62.4	2.13	387.0	+3.0	+ 27.4	+ 31.7
Argentina	3.44	1.00	5.02	na	351.6	-5.0	+ 19.0	- 65.4
Brazil	2.50	2.34	3.64	18.42	12,366.1	+0.1	- 8.9	- 15.8
Chile	655	606	956	3.96	5,238.2	+0.3	- 3.0	- 2.1
Colombia	2,343	2,293	3,417	9.24	1,147.2	-0.2	+ 7.1	+ 4.1
Mexico	9.52	9.05	13.9	6.98	7,385.2	-0.2	+ 15.9	+ 11.7
Peru	3.47	3.59	5.06	2.44	1,234.9	-0.1	+ 5.1	+ 4.3
Venezuela	997	714	1,454	37.52	7,218.1	+4.0	+ 9.9	- 16.5
Egypt	4.63	3.88	6.75	7.19	5,352.2	-1.5	+ 1.5	+ 0.4
Israel	4.87	4.13	7.10	2.73	379.1	-0.4	- 15.2	- 23.1
South Africa	10.1	7.94	14.8	11.65	11,653.4	+1.3	+ 11.6	+ 31.9
Turkey	1,413,500	1,115,750	2,061,731	43.00	10,603.2	-7.0	- 23.1	- 20.8
Czech Republic	33.2	39.8	48.5	3.81	464.9	-0.7	+ 17.8	+ 26.1
Hungary	261	298	381	9.12	8,323.9	-4.8	+ 16.7	+ 22.7
Poland	4.08	4.00	5.95	9.78	15,595.5	+4.4	+ 12.0	+ 8.5
Russia	31.3	29.1	45.6	23.00	414.1‡	+2.9	+ 63.3	+ 59.2
EMF (MSCI)*	1.00	1.00	1.46	na	355.8	-0.2	na	+ 12.1
EMBI+†	1.00	1.00	1.46	na	214.3	-0.2	na	+ 6.9

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Jazz biography

So long, angel

May 16th 2002
From The Economist print edition

NOT many jazz musicians become icons, but in the 1950s Chet Baker was the thing itself. He had little formal training on trumpet, but there was no doubt as to his talent. As a colleague put it, “I've never been around anybody who had a quicker relationship between his ears and his fingers.” Even more compelling was the disarming lyricism of his style, a kind of sweet simplicity which seemed a natural extension of his appearance. Women swooned over him, as did photographers, one of whom said that Chet Baker made him realise what it meant to be photogenic. And if the face and the horn weren't enough, there was his singing, which he did equally naturally and in his own way, making a speciality of yearning ballads like “My Funny Valentine”.

Deep in a Dream: The Long Night of Chet Baker
By James Gavin

Knopf; 413 pages; $26.95.
Chatto and Windus; £20

Buy it at
Amazon.com
Amazon.co.uk

Thus equipped Baker became a jazz pin-up, the Beach Boy of his day, the epitome of the sweet life in California. Unfortunately, as James Gavin's detailed and perceptive biography reveals, there was something unreal about the trumpeter from the beginning. Early on, a friend observed that behind his “saintly-looking” façade lurked “a pretty dangerous little bastard”. It wasn't so much that Baker was evil, but he was simply oblivious to anything but his own drives and desires, which for most of his life were defined by a fierce devotion to drugs. Feeding his habit became his raison d'être, jazz merely a means to that all-consuming end. And when jazz didn't provide the necessary funds, he turned readily to petty crime, which, along with the addiction, kept him in constant trouble with the law.

The worst part of this harrowing chronicle is Baker's treatment of other people, particularly women, whom he could still charm with a kind of specious, fallen-angel sincerity. He never lost what Mr Gavin calls his “duplicitous allure”, and several partners found themselves the prisoners of his wheedling need. He invariably presented himself as a victim, a free spirit whose simple wish to play his music and live his life was thwarted by a callous world. But as a fellow musician said: “Chet was an absolute realist. He didn't have a romantic bone in his body or a naive one. All Chet cared about was getting high.”

Toward the end of his life—in 1988, probably by suicide—he became a kind of icon of destruction, his baby-face ravaged, his playing spare, often fumbling, but still affecting. In Europe particularly he was regarded as “a wise old poet”. But as one friend said, “He'd been a junkie so long that his soul was gone. It was very hard to understand where the beautiful music came from.”

Deep in a Dream: The Long Night of Chet Baker.
By James Gavin.
Knopf; 413 pages; $26.95.
Chatto and Windus; £20

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New fiction

Dark heart

May 16th 2002
From The Economist print edition

“A SCANDALOUS WOMAN”, a short story by Edna O'Brien, suggested already in 1974 that its author might eventually turn to darker themes. “I thought ours indeed was a land of shame, a land of murder and a land of strange, throttled, sacrificial women,” its narrator concludes.

In two recent novels, “House of Splendid Isolation” and “Wild Decembers”, Ms O'Brien fastened on real events to explore in fiction the undersides of Ireland. She does so again in her new novel, “In the Forest”. The abduction and murder in County Clare eight years ago of a priest, a mother and her young child by an itinerant Irishman, Brendan O'Donnell, shocked many people—especially as the killer claimed he'd been driven to it by the devil. Ms O'Brien, in turn, has angered the relatives of O'Donnell's victims by seeking to explore the state of mind of their killer in the form of a novel.

In the Forest
By Edna O'Brien

Houghton Mifflin; 264 pages; $24.
Weidenfeld & Nicolson; £16.99

Buy it at
Amazon.com
Amazon.co.uk

With its black-hearted woods and its scary monster—what she calls the Kinderschreck—taking revenge on an entire community by seeking innocent human sacrifices, “In the Forest” has all the ingredients of an ancient folktale. Michen O'Kane hides in the forest from an early age to escape his father's violence. His mother is his only source of love, but this dries up at her death. Without her, the world is scary and friendless. At the age of ten he steals a gun “to keep him safe”, cuddling it and calling it Rod as another child might a teddy bear. O'Kane's delinquent behaviour sends him to some appalling institutions where he is subjected to physical and sexual violence. He learns to “stopper the tears up, like putting a cork in a bottle”.

Ms O'Brien shows us what it is that “warps a child...that changes a child from being a child”. Michen O'Kane brims with a rage that is waiting to be loosed. The young heroine, Eily—attractive woman and loving mother—is the embodiment of O'Kane's distorted picture of womanhood, “all mothering, all sinning”. She and the priest, Father John, become instruments of something outside themselves, “iconic, picked from a thousand faces for wanton ritual”. Yet Ms O'Brien will not let us see these people as symbolic victims. We are offered details of their lives that remind us constantly of their humanity. We watch the terrible process as both Eily and Father John, abducted at gun point by O'Kane, struggle to reach and keep hold of his flashes of sanity, when he seems to see them as fellow humans. They try to “get him stable” and in the process offer him a sympathy which is tragically several years too late. The damage has been done.

This is a shocking story of a crime that reverberates far beyond the people directly involved and their small community. It carries implications we must all face—in the words of O'Kane's grandmother, “we're all of us broken by this and we won't mend.” It recalls, perhaps inevitably, Gitta Sereny's “Cries Unheard”, an exposition of the life of Mary Bell, a child murderess. Both books make the important point that we are, as a society, responsible for the crimes committed by young people if we fail to heed the signs that they are nearing a crisis. By fictionalising her account, Ms O'Brien allows herself an imaginative freedom which gives the story a new life, sharpening the sense of horror and the lost opportunity, while at no point allowing us to forget its truth.

In the Forest.
By Edna O'Brien.
Houghton Mifflin; 264 pages; $24.
Weidenfeld & Nicolson; £16.99

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African non-fiction

Bloody memories

May 16th 2002
From The Economist print edition

AFRICA is not a kind continent. The rawness that many Europeans and Americans encounter mostly in action films are in Africa the props of everyday life. Despite this rich material, most recent memoirs have been the preserve of white writers such as Rian Malan, Peter Godwin, Kuki Gallmann and, just this year, Alexandra Fuller. Their engagement with the cruel continent is sensitive and eloquent. But it remains also stubbornly unAfrican.

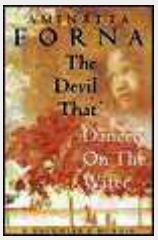
Aminatta Forna is the daughter of a British mother and Sierra Leonean father who, while at medical school in Scotland, celebrated his nation's independence by puffing away on six cigarettes in one go. “I'm smoking for freedom, man,” he declared. After he returned to Freetown, Mohamed Forna was sucked into politics. He was appointed minister of finance by the moody and unpredictable Siaka Stevens, who, seven years later, had him tried on trumped-up charges and hanged for treason.

Three times Ms Forna and her two sisters were sent into exile for their safety. First, with their mother they lived in Scotland, squeezing themselves into a caravan in a field because landladies wouldn't rent to “foreigners”. Later, after their parents divorced and remarried, it was the Forna girls' heroic new African stepmother who watched over them, raising money (from Tiny Rowland, among others) and making sure they did their homework.

In 2000, Ms Forna, by now a documentary film maker for the BBC, flew back to Sierra Leone to try and find the truth behind her father's execution and the men who ordered it. Stevens was dead, and much of the country was ruled by Foday Sankoh's bestial RUF rebels. Many of those who voted in this year's presidential election had to do so with their big toe; both hands had been amputated. Ms Forna recounts how she found the trial transcript and persuaded those responsible to speak to her. But she also explores the symbolism of her journey, and how the loss of her father and the years in exile echo an Africa that lost its hopes and dreams, and then lost the plot. Hers is an African memoir unlike any before it.

The Devil That Danced On The Water: A Daughter's Memoir.
By Aminatta Forna.
HarperCollins; 403 pages; £17.99

The Devil That Danced On The Water: A Daughter's Memoir
By Aminatta Forna



HarperCollins; 403 pages; £17.99

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About sponsorship

Film history

A dark and laughing ringmaster

May 16th 2002
From The Economist print edition

We celebrate one of cinema's true greats, born 100 years ago this month

THE films of Max Ophuls (1902-57) are renowned for their formal brilliance, especially the fluidity of their camerawork. James Mason, the British actor who worked with Ophuls in Hollywood, penned a little rhyme about him:

> A shot that does not call for tracks
> Is agony for poor old Max,
> Who, separated from his dolly,
> Is wrapped in deepest melancholy.
> Once, when they took away his crane,
> I thought he'd never smile again.

Smile, in fact, Ophuls always did, even in the most adverse circumstances, and he was famous for his infectious laughter.

He was exemplary in many ways, and not just for his craftsmanship, in which he was comparable only to Hitchcock. He stands out for what his career has to tell us about the interaction of art and politics in the 20th century. In 1933 he had to flee from Germany. In 1940 he had to flee again, this time from France to America. There followed poverty and unemployment in the exile community in California until he finally got a chance in Hollywood. He returned to Europe in 1950, first to France and then tentatively to his homeland, Germany, which, in spite of everything, he still loved.

Born in Saarbrücken into a well-off Jewish family, the young Max Oppenheimer took the name Max Ophüls when he left home at the age of 18 to join the theatre. (Later, when he became a French citizen, he dropped the umlaut, becoming Ophuls; in Hollywood he was called Opuls.) A talented apprentice director, in 1925 he was asked to work at the prestigious Burgtheater in Vienna. He was hired under his stage name and it was only when he used his real name to sign the contract that the theatre realised he was a Jew. He lasted six miserable months in Vienna before his contract was terminated and he returned to Germany. It was his first experience of anti-Semitism. In 1930, after working his way up the theatre hierarchy to fully-fledged director, he suddenly changed course and took a job in the UFA studio in Berlin as dialogue coach, assisting a Kiev-born film director, Anatole Litvak, in the theatrical skills demanded by the recently introduced talking picture. Soon he became a film director, and by 1932, with “Liebelei”, adapted from a play by Arthur Schnitzler, a worldwide success.

Throughout his enforced migrations Ophuls had to come to terms with different languages and different cultures, and to explore the boundaries of what was commercially and artistically possible in different production systems—precarious and freewheeling in France, regimented in America. Constantly on the move, at the mercy of opportunist producers, he made an imaginary home for himself in the world of the *ancien régime*. Over half of his films are set in the 19th and early 20th centuries, four of them in Habsburg Vienna.

His choice of odiously anti-Semitic Vienna is no accident. “Vienna, about 1900”, as the opening title of his most famous Hollywood film “Letter from an Unknown Woman” (1948) declares itself, is the Vienna of the *Sezession*, Schnitzler and, above all, Freud. Ophuls's imaginary Vienna is a world about to be destroyed and one in which the glossy surface is fissured by cracks which expose its cruelty and hypocrisy. His gliding camera explores the surface, exulting in the beauty of what it sees but ever attentive to the potential for calamity that lies beneath. A master of human psychology, he devotes particular attention to women. His heroines, often of a lower class, push their way into a world in which aristocrats, officers and bankers hold sway. The heroine's charm captivates for a while, but one false step

and she will be cruelly cast aside. Her lover will perish with her, most likely in a duel.

This darker side is ever there beside the laughter and generosity. In “Lola Montes” (1955), the once proud Lola, mistress of Franz Liszt and of the King of Bavaria, is a caged beast, enacting the story of her rise and fall in an American circus under the control of a sadistic ringmaster (Peter Ustinov). Ophuls's clear love is for Lola, played by Martine Carole (shown with him above). But he is also the ringmaster, and therefore we, the audience, are like those who crowd into the circus to watch herhumiliation. Ophuls's readiness to confront the darker side of desire makes him more than a craftsman, more than a classy entertainer touting mid-European culturedness; it makes him, in fact, one of cinema's greatest artists.

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About sponsorship

A short turn among Ophuls classics

May 16th 2002
From The Economist print edition

CAROUSELS, circus rings, dance floors and, above all, stairs: people in Max Ophuls's world are seldom still. Lovingly tracked by his favourite cameramen, Franz Planer and Christian Matras, they move with an ease rarely captured on film. Yet their happiest moments dissolve, desire is never one-sided and freedom is always constrained. His films were often what *Variety* calls “costumers”. But his vision was not limited to a time, and he was one of the most cosmopolitan of directors.

His masterworks are “Liebelei” (1932), “La Signora di Tutti” (1934), “Letter from an Unknown Woman” (1948), “Caught” and “The Reckless Moment” (1949), “La Ronde” (1950), “Madame De...” (1953) and “Lola Montes” (1955). See them if you can, even on video. You may recapture the magic of watching films as a child—with the eyes of an adult.

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About sponsorship

Joseph Bonanno

May 16th 2002
From The Economist print edition

Joseph Bonanno, an American gangster, died on May 11th, aged 97

AP

A DISCOVERY made by Joseph Bonanno when he was quite young was that in a democracy it is possible to construct a criminal organisation largely immune from the law. The American constitution with its constraints designed to protect citizens from unfair prosecution could also be used to shield criminals providing there was enough money available to employ clever lawyers to manipulate the system. Confident of his protection, Mr Bonanno assembled an empire of crime with a turnover of billions of dollars. Despite the best efforts of the state, Mr Bonanno was never convicted of a serious crime. The state's successes were meagre. Mr Bonanno was once fined $450 on a minor charge and late in life was jailed for terms of eight and 14 months for refusing to answer questions, an offence deemed to be contempt of court. The FBI tried to track his every move, even searching Mr Bonanno's dustbins for incriminating evidence. It ended up only looking foolish.

Al Capone, a gangster of America's prohibition era, seems to have been Joseph Bonanno's mentor, teaching him that, with money, you could get away with murder. Capone was jailed (for income tax evasion) in 1931, and Joseph Bonanno moved on. He had been born in Sicily and had links with the semi-feudal Sicilian families collectively known as the Mafia. When Benito Mussolini took power in Italy in 1922 he jailed many Mafia followers, accusing them, correctly, of gangsterism. Those that could get away fled to the United States. The Mafia flourished again in Italy only after the country surrendered in the second world war. By then Mr Bonanno's American branch of the Mafia, consisting mainly of gangs run by Italian émigrés, was flourishing. Each had its speciality: drugs, prostitution, protection, gambling, whatever. Sometimes there were power struggles, and gangsters would murder each other, cheering up the FBI. Mr Bonanno rose in the 1960s to be the *capo di tutti i capi*, boss of bosses. He was said to have invented the “double coffin” in which the body of someone who had died naturally would conceal a murdered corpse. He was a careful man.

The tradition

If Joseph Bonanno had a weakness it was his desire for respectability. It was a difficult ambition, perhaps an impossible one. Mr Bonanno was a criminal. Everyone knew that, and criminals, even successful ones, are not respectable. Shakespeare, as always, put it rather well, noting that, however rich you were, the loss of a good name “makes me poor indeed”. Mr Bonanno was not a literary man, although he did once get someone to help him write a book about himself called, seemingly without irony, “A Man of Honor”. In reviewing his career he says

> The way of life I and my friends had chosen was but a means to attain social advancement and respectability. We didn't consider ourselves criminals.

In his campaign of denial Mr Bonanno relied on what he called “my tradition”, a phrase often used by the mafiosi. He denied that he had dealt in drugs because “my tradition” outlawed them. He had nothing to do with prostitution because it was against “my honour”. And so on. He sued the publishers of a paperback edition of “A Man of Honor” for depicting him on the cover as “a cheap gangster”.

Pressed for a description of himself Mr Bonanno offered “venture capitalist”: indeed much money from his criminal activities was used to set up orthodox businesses such as hotels. He called his group of gangs “the commission” and he was “chairman”. In another flight of fancy he said his work was like running a

state. He had to maintain internal order and to conduct diplomatic relations with other leaders. Despite the self-flattery, there was an element of truth in it. Mr Bonanno was a dictator with absolute power over his subjects. Japan's tolerated gangsters, the Yakuza, have been compared to the Bonanno empire. But they have never gained the same sort of immunity, perhaps because Japan is a more rigid society.

The Mafia remains a sore in Italy (see article). It has corrupted sections of Italian politics. Judges and priests, among others, brave enough to stand up to it have been murdered. That, however, is not how the Mafia has often been portrayed in books and films about its American branch. The most famous is Mario Puzo's romantic novel “The Godfather”, said to have been based on Mr Bonanno. Unlike its characters, real mafiosi are just as likely to be podgy and their women plain, and to have never uttered a witticism in their lives. “The Sopranos”, an American television series, continues the theme of fictional mafiosi.

Joseph Bonanno may have been the first Mafia godfather to die naturally. But he did not feel that he had been well treated by America. He said he resented being “hounded” by the FBI. Newspapers and television had been disrespectful. It was hurtful to be known as “Joe Bananas”. Despite his dedicated work as chairman of the “commission”, he had once had to disappear for two years for fear of ending up in a double coffin. Unlike other fathers he had been unable to enjoy watching his three children growing up in a quiet rural suburbia. He had had a precarious life. The heart bleeds.

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Overview

May 16th 2002
From The Economist print edition

Inflation in **America** rose by more than expected in April, though not by enough to force the Fed to raise rates in the short term. Consumer prices rose by 0.5% in April, making a 1.6% rise over the year. Petrol prices were responsible for most of the increase, but sellers of manufactured goods still have little pricing power. Producer prices fell by 2.0% in the year to April.

American consumers' appetites are still healthy. In April, retail sales grew by 1.2%, their fastest pace since September 11th, against expectations of a 0.7% increase.

America's factories are getting busier. Industrial production rose by 0.4% in April, but was still down by 2.0% over the previous year. Capacity utilisation saw a slight rise, from 75.3 in March to 75.5 in April; but this is not enough to calm fears of excess capacity.

Spain's consumer prices rose by 3.6% in the year to April. Some analysts blame the rounding up of retail prices in the wake of the conversion of pesetas into euro notes and coins. Consumer prices in the **Netherlands** also rose by 3.6% in the same period.

In the year to the first quarter, **Italy's** economy grew by 0.1%, the slowest pace since 1997. In the year to March, industrial production suffered a 7.6% drop.

Germany's trade surplus widened in March to $10.4 billion, taking the 12-month total to $92.3 billion. Retail sales fell by 4.5% in volume in the year to March; producer prices fell by 0.5% in the year to April.

Swedish consumer prices rose by 2.5% in the year to April; retail sales grew by 4.3% in volume in the year to March. In the year to April, **Danish** consumer prices rose by 2.4%; producer prices rose by 0.3%.

Japan's narrow-money supply expanded by 32.6% in the 12 months to April. But broad-money supply saw far weaker 12-month growth, slowing to 3.6% in April from 3.7% in March. The trade surplus widened in March to $7.8 billion, taking the 12-month total to $72.6 billion; the current-account surplus also rose, giving a yearly total of $96.1 billion. Producer prices fell by 0.7% in the year to April.

The number of people claiming unemployment benefit in **Britain** rose in April, taking the unemployment rate to 3.2%. Wages rose by 2.9% in the year to March, and producer prices rose by 0.2% in the year to April.

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Output, demand and jobs

May 16th 2002
From The Economist print edition

% change at annual rate

	GDP			The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	1 qtr	1 year		2002	2003	latest		latest		latest		year ago
Australia	+ 5.2	+ 4.1	Q4	+ 3.8	+ 3.9	+ 2.5	Q4	+ 5.0	Q1	6.3	Apr	6.7
Austria	– 0.7	– 0.4	Q4	+ 1.3	+ 2.7	– 0.2	Feb	+ 0.7	Jan	4.0	Mar	3.4
Belgium	– 1.7	– 0.7	Q4	+ 1.4	+ 3.1	–10.8	Mar	+ 6.6	Feb	10.5	Apr*	10.2
Britain	+ 0.3	+ 1.0	Q1	+ 1.9	+ 2.9	– 5.9	Mar	+ 5.7	Mar	5.1	Mar†	5.1
Canada	+ 2.0	+ 0.9	Q4	+ 2.7	+ 3.5	– 0.8	Feb	+ 6.6	Feb	7.6	Apr	7.0
Denmark	+ 0.5	+ 0.4	Q4	+ 1.6	+ 2.5	nil	Mar	+ 2.1	Feb	5.0	Mar	5.4
France	– 1.4	+ 0.5	Q4	+ 1.5	+ 2.9	– 0.4	Mar	– 0.1	Mar	9.1	Mar	8.7
Germany	– 1.0	– 0.1	Q4	+ 1.0	+ 2.6	– 3.8	Mar	– 4.5	Mar	9.6	Apr**	9.4
Italy	+ 0.6	+ 0.1	Q1	+ 1.4	+ 2.9	– 7.6	Mar	– 0.4	Feb	9.0	Jan	9.8
Japan	– 4.8	– 1.9	Q4	– 1.0	+ 1.1	–10.0	Mar	– 4.3	Mar	5.2	Mar	4.7
Netherlands	nil	+ 0.4	Q4	+ 1.5	+ 3.0	– 2.0	Mar	+ 0.8	Feb	2.2	Mar§	2.2
Spain	+ 0.7	+ 2.3	Q4	+ 2.1	+ 3.3	– 9.3	Mar	na		12.9	Mar	13.1
Sweden	+ 1.4	+ 1.1	Q4	+ 1.8	+ 3.0	– 1.7	Feb	+ 4.3	Mar	3.8	Mar*	3.9
Switzerland	+ 0.1	+ 0.4	Q4	+ 1.1	+ 2.3	– 1.0	Q4	+ 0.9	Mar	2.5	Apr*	1.7
United States	+ 5.8	+ 1.6	Q1	+ 2.8	+ 3.5	– 2.0	Apr	+ 6.1	Mar	6.0	Apr	4.5
Euro area	– 0.8	+ 0.7	Q4	+ 1.3	+ 2.9	– 3.3	Feb	+ 1.3	Feb	8.4	Mar	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	– 1.8	– 0.9	Q4	na	na	– 4.9	Mar	+ 1.3	Jan	9.5	Mar*	9.6
Greece	na	+ 3.7	Q4	na	na	– 2.0	Feb	+ 8.4	Jan	na		na
Iceland	na	+ 3.1	2001	na	na	+ 3.3	2001	na		2.7	Mar*	1.5
Ireland	na	nil	Q4	na	na	+14.7	Mar	+ 5.0	Feb	4.2	Apr	3.6
Luxembourg	na	+ 3.5	2001	na	na	+ 2.4	Feb	+ 5.4	Dec	2.8	Mar	2.6
New Zealand	+ 2.6	+ 2.9	Q4	na	na	+ 3.5	Q4	+ 8.2	Q1	5.3	Q1	5.4
Norway	+ 1.0	+ 1.8	Q4	na	na	– 2.5	Mar	+ 2.9	Mar	3.7	Q1	3.7
Portugal	+ 1.8	+ 1.0	Q4	na	na	+ 2.3	Mar	– 0.4	Mar	4.1	Q4*	3.8

*Not seasonally adjusted. †Jan-Mar; claimant count rate 3.2% in Apr. §Jan-Mar. **EU harmonised rate 8.1% in Apr.

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Prices and wages

May 16th 2002
From The Economist print edition

% change at annual rate

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.9	Q1	+ 6.0	+ 2.5	+ 2.5	+ 0.5	Q1	+ 5.2	+ 4.9	Q4	+ 5.4
Austria	+ 1.9	Mar	+ 2.7	+ 1.7	+ 1.7	– 0.5	Apr	+ 2.9	+ 2.4	Mar	+ 2.6
Belgium	+ 1.8	Apr	+ 2.8	+ 1.9	+ 1.7	+ 0.4	Mar	+ 3.2	+ 3.1	Q1	+ 1.9
Britain	+ 1.3	Mar	+ 2.3	+ 2.1	+ 2.5	+ 0.2	Apr	+ 0.6	+ 2.9	Mar	+ 5.0
Canada	+ 1.8	Mar	+ 2.5	+ 1.5	+ 2.0	– 1.2	Mar	+ 2.4	+ 3.3	Feb	+ 0.3
Denmark	+ 2.4	Apr	+ 2.7	+ 2.1	+ 2.1	+ 0.3	Apr	+ 3.6	+ 4.1	Q4	+ 3.8
France	+ 2.0	Apr	+ 1.8	+ 1.6	+ 1.5	– 0.7	Mar	+ 2.9	+ 4.1	Q4	+ 5.0
Germany	+ 1.6	Apr	+ 2.9	+ 1.5	+ 1.4	– 0.5	Apr	+ 4.1	+ 2.3	Feb	+ 2.4
Italy	+ 2.4	Apr	+ 3.1	+ 2.0	+ 2.0	– 1.3	Mar	+ 4.2	+ 3.2	Mar	+ 2.0
Japan	– 1.2	Mar	– 0.7	– 1.0	– 0.6	– 0.7	Apr	+ 1.3	– 1.0	Mar	+ 0.6
Netherlands	+ 3.6	Apr	+ 4.9	+ 3.3	+ 2.5	– 1.8	Mar	+ 5.7	+ 3.8	Mar	+ 4.2
Spain	+ 3.6	Apr	+ 4.0	+ 2.5	+ 2.4	nil	Mar	+ 3.2	+ 3.7	Q4	na
Sweden	+ 2.5	Apr	+ 2.8	+ 2.4	+ 2.1	– 0.4	Mar	+ 2.6	+ 2.6	Feb	+ 2.8
Switzerland	+ 1.1	Apr	+ 1.2	+ 0.7	+ 1.1	– 1.3	Mar	+ 0.5	+ 2.5	2001	+ 1.3
United States	+ 1.6	Apr	+ 3.3	+ 1.5	+ 2.3	– 2.0	Apr	+ 3.7	+ 3.4	Apr	+ 4.3
Euro area	+ 2.2	Apr	+ 2.9	+ 1.9	+ 1.7	– 0.8	Mar	+ 4.2	+ 3.0	Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Apr	+ 2.9	na	na	– 0.8	Mar	+ 2.1	+ 4.3	Q4	+ 5.0
Greece	+ 3.8	Apr	+ 3.5	na	na	+ 3.7	Mar	+ 4.3	na		na
Iceland	+ 5.9	May	+ 5.5	na	na	+ 8.8	Apr	+ 4.2	+ 8.7	Mar	+ 9.2
Ireland	+ 4.8	Apr	+ 5.6	na	na	+ 1.4	Mar	+ 3.1	+ 8.1	Q4	+ 6.4
Luxembourg	+ 2.1	Apr	+ 2.8	na	na	– 2.5	Feb	+ 4.5	+ 3.1	Feb	+ 4.8
New Zealand	+ 2.6	Q1	+ 3.1	na	na	+ 1.8	Q4	+10.7	+ 2.1	Q1	+ 1.8
Norway	+ 0.5	Apr	+ 3.8	na	na	– 4.7	Apr	+ 9.8	+ 4.5	Q4	+ 4.3
Portugal	+ 3.6	Apr	+ 4.5	na	na	– 5.0	Mar	+ 4.7	+ 2.4	Apr	na

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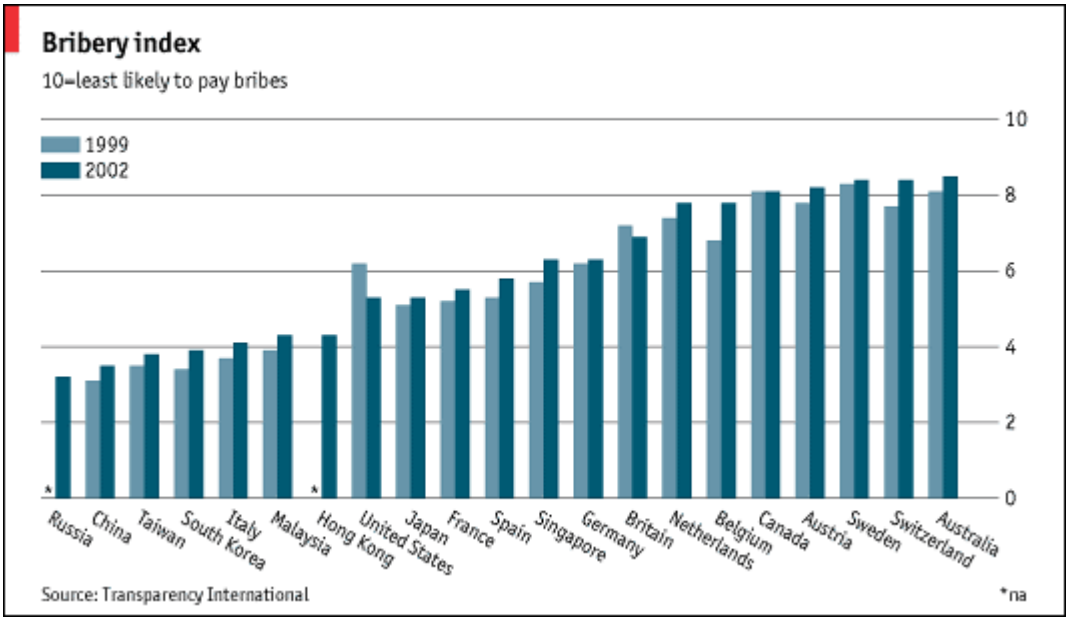
Bribery index

May 16th 2002
From The Economist print edition



According to Transparency International, an anti-corruption organisation, Russian and Chinese companies are paying bribes in developing countries “on an exceptional and intolerable scale”. In rich countries, companies from Italy, America and Japan score poorly, despite their anti-bribery laws and conventions. American and British companies' record, reckons Transparency International, has deteriorated since 1999.

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Money and interest rates

May 16th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (May 15th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.0	+13.9	Mar	4.87	4.88	5.43	6.35	6.10	7.40‡
Britain	+ 7.2	+ 5.4	Mar	4.09	5.16	4.82	5.30	5.02	6.17
Canada	+11.7	+ 5.3	Mar	2.54	4.28	4.28	5.76	5.96	7.11
Denmark	+ 5.8	+ 5.3	Mar	3.80	4.95	4.56	5.41	5.30	7.03
Japan	+32.6	+ 3.6	Apr	0.02	0.02	0.02	1.35	1.28	1.46
Sweden	+ 8.8	+ 6.2	Dec	4.28	3.98	5.13	5.66	5.24	5.77
Switzerland	+ 6.6	+ 3.1	Mar	1.28	3.12	2.10	3.32	3.40	4.28
United States	+ 7.1	+10.0	Mar	1.81	3.95	3.33	5.25	5.45	7.06
Euro area†	+ 5.8	+ 7.3	Mar	3.49	4.56	4.35	5.18	5.01	6.05

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. ‡ New series. Benchmarks: US 30-year 5.73%, Japan No.238 1.36%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

May 16th 2002
From The Economist print edition

1995=100

	May 7th	May 14th*	% change on one month	% change on one year
Dollar index				
All items	68.0	68.8	– 0.3	– 3.8
Food	67.5	68.7	– 1.1	+ 0.1
Industrials				
All	68.7	69.0	+ 0.9	– 8.5
Nfa†	69.4	69.6	+ 1.9	– 7.0
Metals	68.1	68.5	+ 0.0	– 9.8
Sterling index				
All items	73.2	75.0	– 0.9	– 5.5
Euro index				
All items	98.0	100.4	– 2.3	– 6.2
Yen index				
All items	92.6	94.3	– 2.1	+ 0.4
Gold				
$ per oz	312.40	307.75	+ 3.1	+15.1
West Texas Intermediate				
$ per barrel	26.98	29.08	+15.5	+ 0.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

May 16th 2002
From The Economist print edition

Market indices

	May 15th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,324.7	3,440.0	3,252.2	+ 1.1	- 3.4	- 1.0	+ 6.1
Austria (ATX)	1,335.6	1,357.2	1,114.4	- 0.5	-23.1	+17.1	+19.3
Belgium (Bel 20)	2,871.7	2,899.8	2,622.4	+ 1.1	-22.0	+ 3.2	+ 5.1
Britain (FTSE 100)	5,259.1	5,323.8	5,024.1	+ 1.0	-24.1	+ 0.8	+ 0.8
Canada (Toronto Composite)	7,707.0	7,958.1	7,418.1	- 0.0	-32.3	+ 0.2	+ 2.9
Denmark (KBX)	221.4	233.4	213.3	- 2.0	-26.6	- 1.5	+ 0.3
France (SBF 250)	2,964.1	3,081.9	2,694.1	+ 1.5	-32.5	- 0.6	+ 1.3
(CAC 40)	4,471.3	4,688.0	4,239.0	+ 1.5	-35.4	- 3.3	- 1.5
Germany (Xetra DAX)	5,072.4	5,462.6	4,745.6	+ 0.9	-37.1	- 1.7	+ 0.1
Italy (BCI)	1,451.7	1,513.0	1,344.9	+ 1.2	-33.5	+ 1.3	+ 3.1
Japan (Nikkei 225)	11,643.0	11,919.3	9,420.9	+ 1.1	-70.1	+10.4	+13.2
(Topix)	1,087.0	1,125.4	922.5	+ 0.5	-62.3	+ 5.3	+ 7.9
Netherlands (AEX)	503.8	531.2	478.3	+ 1.2	-28.2	- 0.6	+ 1.2
Spain (Madrid SE)	830.0	848.1	773.2	+ 0.8	-27.6	+ 0.7	+ 2.5
Sweden (Affarsvarlden Gen)	205.9	236.8	201.2	+ 0.5	-48.6	-11.0	- 8.4
Switzerland (Swiss Market)	6,670.1	6,694.1	6,105.2	+ 1.2	-20.7	+ 3.9	+ 7.5
United States (DJIA)	10,243.7	10,635.3	9,618.2	+ 1.0	-12.6	+ 2.2	+ 2.2
(S&P 500)	1,091.0	1,172.5	1,049.5	+ 0.2	-28.6	- 5.0	- 5.0
(Nasdaq Comp)	1,725.6	2,059.4	1,573.8	+ 1.7	-65.8	-11.5	-11.5
Europe (FTSE Eurotop 300)*	1,235.5	1,279.7	1,185.5	+ 1.1	-27.5	- 2.0	- 0.2
Euro area (FTSE Ebloc 100)*	1,066.2	1,125.1	1,013.0	+ 1.5	-31.2	- 4.1	- 2.4
World (MSCI)†	982.1	1,024.4	937.0	+ 0.6	-32.2	na	- 2.1
World bond market (Salomon)‡	448.3	452.7	430.3	- 0.1	- 2.5	na	+ 2.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

May 16th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† May 15th	Exchange rate trade-weighted† year ago	Currency units per $ May 15th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	+ 1.5 Mar	− 9.2 Q4	− 3.6	− 3.7	76.8	73.3	1.82	1.92	2.65	1.65	1.43	0.1
Austria	− 3.0 Feb	− 3.6 Feb	− 2.2	− 2.0	100.3	100.2	1.10	1.13	1.61	–	0.86	-0.3
Belgium	+ 11.5 Mar	+ 13.0 Dec	+ 4.8	+ 4.8	99.2	98.8	1.10	1.13	1.61	–	0.86	nil
Britain	− 48.0 Mar	− 25.1 Q4	− 2.1	− 2.1	106.0	106.1	0.69	0.70	–	0.62	0.54	-0.8
Canada	+ 37.6 Feb	+ 18.9 Q4	+ 2.1	+ 2.3	77.3	78.2	1.56	1.54	2.26	1.41	1.22	1.0
Denmark	+ 7.2 Feb	+ 4.1 Feb	+ 2.2	+ 2.0	102.2	101.5	8.20	8.44	11.9	7.44	6.41	2.2
France	+ 4.5 Feb	+ 24.4 Feb	+ 1.7	+ 1.7	101.8	101.4	1.10	1.13	1.61	–	0.86	-2.0
Germany	+ 92.3 Mar	+ 13.3 Mar	+ 0.4	+ 0.4	98.8	98.4	1.10	1.13	1.61	–	0.86	-2.8
Italy	+ 8.5 Feb	+ 1.7 Jan	+ 0.1	nil	72.6	72.4	1.10	1.13	1.61	–	0.86	-1.4
Japan	+ 72.6 Mar	+ 96.1 Mar	+ 2.5	+ 2.6	130.7	136.9	128	124	186	116	–	-8.0
Netherlands	+ 22.4 Feb	+ 11.8 Q4	+ 3.7	+ 4.0	98.1	97.7	1.10	1.13	1.61	–	0.86	0.1
Spain	− 37.9 Feb	− 15.1 Jan	− 2.2	− 1.8	74.4	74.1	1.10	1.13	1.61	–	0.86	-0.3
Sweden	+ 13.3 Mar	+ 7.4 Mar	+ 2.5	+ 2.8	75.7	76.8	10.2	10.3	14.8	9.23	7.96	2.1
Switzerland	+ 1.8 Mar	+ 24.6 Q4	+ 9.5	+ 9.6	113.8	107.4	1.61	1.73	2.34	1.46	1.26	na
United States	−423.2 Feb	−417.4 Q4	− 4.2	− 4.4	119.6	119.5	–	–	1.46	0.91	0.78	-1.0
Euro area	+ 50.3 Feb	− 5.8 Feb	+ 0.3	+ 0.4	79.2	78.3	1.10	1.13	1.61	–	0.86	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.4 Mar	+ 7.5 Mar	na	na	78.3	77.9	1.10	1.13	1.61	–	0.86	3.2
Greece	− 19.1 Dec	− 7.2 Dec	na	na	57.6	57.4	1.10	1.13	1.61	–	0.86	0.4
Iceland	+ 0.1 Mar	− 0.4 Q4	na	na	na	na	92.3	100	134	83.7	72.2	-0.5
Ireland	+ 32.2 Feb	− 1.1 Q4	na	na	87.7	87.0	1.10	1.13	1.61	–	0.86	0.1
Luxembourg	− 2.9 Feb	+ 0.9 Q4	na	na	99.2	98.8	1.10	1.13	1.61	–	0.86	2.2
New Zealand	+ 0.3 Mar	− 1.6 Q4	na	na	87.0	80.5	2.18	2.37	3.18	1.98	1.71	0.1
Norway	+ 24.7 Apr	+ 22.2 Feb	na	na	101.9	94.9	8.32	9.08	12.1	7.54	6.51	14.0
Portugal	− 13.6 Feb	− 10.1 Feb	na	na	89.4	89.2	1.10	1.13	1.61	–	0.86	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

Text refers only to the first 16 countries listed

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Exchange-rate forecasts

May 16th 2002
From The Economist print edition

Exchange-rate forecasts

from J.P. Morgan Chase, currency units per $

	May 15th	3-month	12-month
Euro area*	0.90	0.91	0.92
Japan	128	126	126
Australia	1.83	1.80	1.74
Britain†	1.45	1.47	1.46
Canada	1.56	1.53	1.47
Denmark	8.23	8.22	8.06
Sweden	10.2	9.74	9.44
Switzerland	1.61	1.64	1.65
China	8.28	8.26	8.20
Singapore	1.81	1.79	1.74
South Korea	1,268	1,270	1,233
Brazil	2.51	2.55	2.53
Mexico	9.46	9.27	9.69
Poland	4.06	4.10	3.66
Russia	31.3	33.0	35.8
South Africa	10.2	10.8	12.9

*$ per †$ per £

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Overview

May 16th 2002
From The Economist print edition

Israel's economy has been mired in recession for over 12 months. In the year to March, GDP fell by 4.2%. But, despite the deteriorating security situation, output rose in the first quarter of 2002 at an annual rate of 2.4%. Public spending surged, driven by a big rise in defence spending.

Boosted by exports and government spending, industrial production in **China** jumped by 12.1% in the year to April. Industrial output in **Mexico** fell by 7.6% in the year to March.

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Emerging stockmarkets

May 16th 2002
From The Economist print edition

Although they have bounced back in recent months, emerging stockmarkets have still done worse than America's since January 1st 2000. The S&P 500 index has fallen by 25%. Morgan Stanley Capital International's emerging-market index has fallen by 29%.

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Economy

May 16th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.6	Q1	+12.1	Apr	– 1.3	Apr	+25.6	Apr	+21.2	2001§	226.7	Feb
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.2	Mar	– 9.6	Mar	+12.0	Q4	110.9	Apr
India	+ 6.3	Q4	+ 2.4	Mar	+ 5.2	Mar	– 5.9	Mar	– 0.1	Q4	52.5	Apr
Indonesia	+ 2.9	Q4	– 2.2	Q3	+13.3	Apr	+26.0	Mar	+ 7.3	Q3	27.2	Mar
Malaysia	– 0.5	Q4	– 3.5	Mar	+ 2.1	Mar	+14.1	Mar	+ 6.9	Q4	31.5	Mar
Philippines	+ 3.8	Q4	+ 2.2	Feb‡	+ 3.6	Apr	+ 2.6	Feb	+ 4.9	Jan	14.9	Mar
Singapore	– 2.6	Q1	– 2.9	Mar	– 0.9	Mar	+ 5.3	Mar	+17.9	Q4	76.6	Apr
South Korea	+ 3.7	Q4	+ 4.4	Mar	+ 2.5	Apr	+ 9.3	Apr	+ 7.6	Mar	106.0	Mar
Taiwan	– 2.7	Q4	+ 0.4	Mar	+ 0.2	Apr	+18.3	Apr	+19.0	Q4	132.9	Apr
Thailand	+ 2.1	Q4	+ 8.4	Mar	+ 0.4	Apr	+ 3.2	Mar	+ 6.6	Mar	32.9	Mar
Argentina	–10.7	Q4	–16.7	Mar	+18.4	Apr	+ 9.8	Mar	– 4.4	Q4	12.8	Mar
Brazil	– 0.7	Q4	– 3.8	Mar	+ 8.0	Apr‡	+ 4.7	Apr	–19.8	Mar	36.7	Mar
Chile	+ 1.7	Q4	– 2.1	Mar	+ 2.5	Apr	+ 1.5	Mar	– 0.9	Q4	14.0	Feb
Colombia	+ 1.7	Q4	– 0.5	Feb	+ 5.7	Apr	+ 0.4	Feb	– 1.7	Q4	10.1	Mar
Mexico	– 2.0	Q1	– 7.6	Mar	+ 4.7	Apr	– 9.3	Mar	–17.1	Q4	46.2	Mar
Peru	+ 1.6	Mar	+ 0.3	Feb	+ 0.1	Apr	– 0.1	Feb	– 1.1	Q4	8.3	Mar
Venezuela	+ 2.8	Q3	+ 9.7	Jan	+18.7	Apr	+ 9.8	Q4	+ 4.4	Q4	6.6	Feb
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.4	Jan	– 8.6	Dec	– 0.1	Q4	12.6	Jan
Israel	– 4.2	Q1	– 6.9	Feb	+ 5.0	Apr	– 5.9	Apr	– 1.7	Q4	24.0	Apr
South Africa	+ 1.8	Q4	+ 3.9	Mar	+ 6.6	Mar	+ 3.8	Mar	– 0.2	Q4	6.0	Mar
Turkey	–10.4	Q4	+18.7	Mar	+52.7	Apr	– 7.4	Feb	+ 4.2	Jan	20.5	Mar
Czech Republic	+ 3.2	Q4	+ 4.1	Mar	+ 3.2	Apr	– 2.7	Mar	– 2.7	Q4	15.9	Apr
Hungary	+ 3.3	Q4	+ 4.2	Mar	+ 6.1	Apr	– 2.2	Mar	– 1.4	Mar	10.1	Apr
Poland	+ 0.3	Q4	– 3.2	Mar	+ 3.3	Mar	–11.1	Mar	– 7.2	Mar	26.1	Mar
Russia	+ 4.3	Q4	+ 3.7	Mar	+16.3	Apr	+45.0	Mar	+31.2	Q1	33.2	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 6.9	Dec	+ 3.3	Apr	– 1.0	Apr	+ 0.3	2001†	4.0	Mar
Saudi Arabia	+ 1.7	2001§	na		nil	Feb	+37.5	2001§	+ 8.3	2001	17.6	Mar

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

May 16th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 15th		Dec 31st 2001	
	May 15th	year ago	May 15th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.0	na	1,668.4‡	-3.3	- 2.6	- 2.6
Hong Kong	7.80	7.80	11.4	1.95	11,838.4	+0.6	+ 3.9	+ 3.9
India	49.0	46.9	71.3	6.38	3,395.6	-1.1	+ 4.1	+ 2.4
Indonesia	9,240	11,408	13,449	16.81	538.9	-1.6	+ 37.5	+ 54.7
Malaysia	3.80	3.80	5.53	3.25	786.8	-1.0	+ 13.0	+ 13.0
Philippines	49.6	50.2	72.3	6.06	1,357.7	+0.9	+ 16.2	+ 20.8
Singapore	1.81	1.81	2.63	0.88	1,747.3	+0.7	+ 7.6	+ 10.0
South Korea	1,273	1,309	1,852	4.82	862.6	+2.1	+ 24.4	+ 28.4
Taiwan	34.5	33.0	50.2	2.55	5,910.7	+3.5	+ 6.5	+ 7.9
Thailand	42.9	45.3	62.4	2.13	375.8	-1.7	+ 23.7	+ 27.6
Argentina	3.24	1.00	4.72	na	370.2	-7.2	+ 25.3	- 61.3
Brazil	2.51	2.32	3.65	18.36	12,349.6	-2.1	- 9.0	- 16.2
Chile	653	605	950	4.08	5,223.5	-0.1	- 3.2	- 2.0
Colombia	2,300	2,379	3,347	9.56	1,149.8	+2.1	+ 7.4	+ 6.3
Mexico	9.48	9.16	13.8	6.87	7,402.8	-1.5	+ 16.2	+ 12.4
Peru	3.45	3.60	5.01	2.41	1,235.7	+0.3	+ 5.1	+ 5.1
Venezuela	1,001	714	1,456	25.00	6,943.0	+5.1	+ 5.7	- 20.0
Egypt	4.60	3.88	6.70	7.20	5,436.1	+1.4	+ 3.1	+ 2.5
Israel	4.80	4.14	6.99	2.73	380.4	+1.3	- 14.9	- 21.7
South Africa	10.2	7.99	14.9	11.65	11,501.6	+0.0	+ 10.2	+ 29.3
Turkey	1,395,500	1,123,500	2,031,150	43.00	11,402.2	-5.9	- 17.3	- 13.7
Czech Republic	33.4	38.8	48.7	3.82	468.0	+0.6	+ 18.6	+ 26.2
Hungary	269	293	392	8.66	8,742.0	-2.3	+ 22.6	+ 25.2
Poland	4.08	4.00	5.94	9.95	14,934.0	-0.0	+ 7.3	+ 3.9
Russia	31.3	29.1	45.5	23.00	402.4‡	+5.5	+ 58.6	+ 54.7
EMF (MSCI)*	1.00	1.00	1.46	na	356.5	+0.7	na	+ 12.3
EMBI+†	1.00	1.00	1.46	na	214.7	+0.2	na	+ 7.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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